

BLOM BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL

Qualified Opinion

We have audited the consolidated financial statements of BLOM Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in note 36 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 337,177 million (the "excess provisions") as at 31 December 2017. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements, as these transactions constitute a departure from International Financial Reporting Standards (IFRS). Our audit opinion for the current year is also modified due to the effect of these prior years' transactions on the consolidated financial statements as at 31 December 2018. As disclosed in note 2.3 and in accordance with regulatory instructions, the Group used an amount of LL 126,298 million from the excess provisions to provide for additional amounts resulting from the first-time adoption of IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018, instead of recognizing the impact within opening "Retained earnings" (as required by IFRS). The Group also used LL 49,934 million of these excess provisions towards additional IFRS 9 allowances for the year instead of recognizing an impairment loss on financial assets in the consolidated income statement. The remaining excess provisions amounted to LL 160,945 million as at 31 December 2018 and were classified under "Provisions for risks and charges".

Accordingly, profit for the year 2018 is overstated by LL 49,934 million (2017: LL 89,720 million), "Provisions for risks and charges" is overstated and total equity is understated by LL 160,945 million as at 31 December 2018 (2017: LL: 337,177 million).

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information Included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. In addition to the matter described in the "*Basis for Qualified Opinion*" section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Allowances for expected credit losses

Refer to note 2.5 of the consolidated financial statements for a description of the accounting policy and note 49 for analysis of credit risk.

Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives.

The key areas of judgement include:

1. The identification of exposure with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:

We performed the following procedures:

1. We assessed the modelling techniques and methodology against the requirements of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build, validation and governance of models.
4. We tested the material modelling assumptions in addition to any overlays.
5. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
6. We reperformed the ECL computation for sample of credit facilities.
7. We assessed the adequacy of disclosures in the consolidated financial statements.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

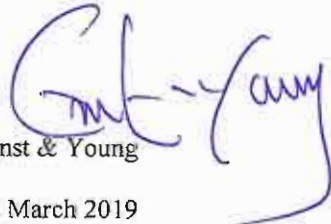


We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partners in charge of the audit resulting in this independent auditors' report are Walid Nakfour for Ernst & Young and Nicolas Barakat for BDO, Semaan, Gholam & Co.



Ernst & Young

22 March 2019
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

BLOM Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Interest and similar income	7	3,365,382	2,783,524
Interest and similar expense	8	(2,098,265)	(1,671,530)
Net interest income		<u>1,267,117</u>	<u>1,111,994</u>
Fee and commission income		277,989	263,016
Fee and commission expense		(63,133)	(57,239)
Net fee and commission income	9	<u>214,856</u>	<u>205,777</u>
Net gain from financial instruments at fair value through profit or loss	10	34,771	38,053
Net (loss) gain from sale of financial assets at amortized cost	11	(5,498)	60,420
Revenue from financial assets at fair value through other comprehensive income		917	340
Other operating income	12	36,721	129,393
Total operating income		<u>1,548,884</u>	<u>1,545,977</u>
Net impairment losses on financial assets	13	(16,814)	(19,101)
Net operating income		<u>1,532,070</u>	<u>1,526,876</u>
Personnel expenses	14	(348,295)	(317,618)
Other operating expenses	15	(192,506)	(170,397)
Depreciation of property and equipment	26	(37,670)	(35,368)
Amortization of intangible assets	27	(1,890)	(2,003)
Impairment of goodwill	30	-	(89,720)
Total operating expenses		<u>(580,361)</u>	<u>(615,106)</u>
Operating profit		951,709	911,770
Net loss on disposal of fixed assets		(1,255)	(403)
Profit before tax		<u>950,454</u>	<u>911,367</u>
Income tax expense	16	(179,184)	(179,820)
Profit for the year		<u>771,270</u>	<u>731,547</u>
Attributable to:			
Equity holders of the parent		765,757	726,701
Non-controlling interests		5,513	4,846
		<u>771,270</u>	<u>731,547</u>
Basic earnings per share attributable to equity holders of the parent for the year	17	<u>3,573</u>	<u>3,394</u>

The accompanying notes 1 to 50 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Profit for the year	771,270	731,547
Other comprehensive gain to be reclassified to consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	(853)	39,335
Net gain (loss) on hedge of net investment	8,833	(22,693)
	<u>7,980</u>	<u>16,642</u>
Other comprehensive gain not to be reclassified to consolidated income statement in subsequent periods:		
Net unrealized gain from financial assets at fair value through other comprehensive income	1,051	67
Other comprehensive gain for the year	<u>9,031</u>	<u>16,709</u>
Total comprehensive income for the year	<u>780,301</u>	<u>748,256</u>
Attributable to:		
Equity holders of the parent	774,388	743,337
Non-controlling interests	5,913	4,919
	<u>780,301</u>	<u>748,256</u>

The accompanying notes 1 to 50 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 LL million	2017 LL million
ASSETS			
Cash and balances with central banks	18	33,135,407	24,630,491
Due from banks and financial institutions	19	2,366,769	3,563,253
Loans to banks and financial institutions	20	37,864	44,513
Derivative financial instruments	21	18,752	20,401
Financial assets at fair value through profit or loss	22	361,301	363,715
Net loans and advances to customers at amortized cost	23	10,776,820	11,335,975
Net loans and advances to related parties at amortized cost	44	24,443	28,145
Debtors by acceptances		191,492	150,791
Financial assets at amortized cost	24	7,410,461	7,856,375
Financial assets at fair value through other comprehensive income	25	14,605	4,224
Property and equipment	26	803,825	797,875
Intangible assets	27	4,991	2,173
Assets obtained in settlement of debt	28	58,276	60,680
Other assets	29	179,548	199,497
Goodwill	30	1,984	1,996
Total assets		55,386,538	49,060,104
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	7,116,222	2,254,945
Repurchase agreements	31	25,826	7,263
Due to banks and financial institutions	32	866,061	578,685
Derivative financial instruments	21	22,621	34,387
Customers' deposits at amortized cost	33	40,413,404	39,977,019
Deposits from related parties at amortized cost	44	164,218	185,571
Debt issued and other borrowed funds	34	456,288	-
Engagements by acceptances		192,751	150,791
Other liabilities	35	849,795	817,398
Provisions for risks and charges	36	352,061	523,424
Total liabilities		50,459,247	44,529,483
Equity			
Share capital	37	322,500	322,500
Share premium	37	374,059	374,059
Non-distributable reserves	38	1,533,677	1,312,778
Distributable reserves		642,697	601,207
Treasury shares	39	(13,567)	(8,473)
Retained earnings	40	1,611,312	1,520,460
Revaluation reserve of real estate		14,727	14,727
Change in fair value of financial assets at fair value through other comprehensive income	41	(957)	614
Foreign currency translation reserve		(402,131)	(410,141)
Profit for the year		765,757	726,701
Equity attributable to equity holders of parent		4,848,074	4,454,432
Non-controlling interests		79,217	76,189
Total equity		4,927,291	4,530,621
Total liabilities and equity		55,386,538	49,060,104

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 22 March 2019:



Saad Azhari
Chairman and General Manager



Talal Baba
Chief Financial Officer

The accompanying notes 1 to 50 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	2018														
	Attributable to equity holders of the parent														
	Share capital - common shares L.L. million	Share capital - preferred shares L.L. million	Share premium on common shares L.L. million	Share premium on preferred shares L.L. million	Non-distributable reserves L.L. million	Distributable reserves L.L. million	Treasury shares L.L. million	Retained earnings L.L. million	Revaluation reserve of real estate L.L. million	Change in fair value of financial assets at fair value through other comprehensive income L.L. million	Foreign currency translation reserve L.L. million	Profit for the year L.L. million	Total L.L. million	Non-controlling interests L.L. million	Total equity L.L. million
Balance at 1 January 2018	322,500	-	374,059	-	1,312,778	601,207	(8,473)	1,520,460	14,727	614	(410,141)	726,701	4,454,432	76,189	4,530,621
Impact of IFRS 9 at 1 January 2018 (note 2)	-	-	-	-	(732)	(4,766)	-	(2,124)	-	(2,192)	-	-	(9,814)	(351)	(10,165)
Restated balance at 1 January 2018	322,500	-	374,059	-	1,312,046	596,441	(8,473)	1,518,336	14,727	(1,578)	(410,141)	726,701	4,444,618	75,838	4,520,456
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	765,757	765,757	5,513	771,270
Other comprehensive income	-	-	-	-	-	-	-	-	-	621	8,010	-	8,631	400	9,031
Total comprehensive income	-	-	-	-	-	-	-	-	-	621	8,010	765,757	774,388	5,913	780,301
Transfer from retained earnings to non-distributable reserves	-	-	-	-	111,393	-	-	(111,393)	-	-	-	-	-	-	-
Dividends distributions (note 43)	-	-	-	-	-	-	-	-	-	-	-	(364,338)	(364,338)	(1,530)	(365,868)
Appropriation of 2017 profits	-	-	-	-	110,170	45,091	-	207,104	-	-	-	(362,365)	-	-	-
Change in non-controlling interest	-	-	-	-	-	12	-	(10)	-	-	-	2	4	(16)	(12)
Purchase of treasury shares (note 39)	-	-	-	-	-	-	(5,766)	-	-	-	-	-	(5,766)	-	(5,766)
Sale of treasury shares (note 39)	-	-	-	-	-	-	672	-	-	-	-	-	672	-	672
Net gain on sale of treasury shares (note 39)	-	-	-	-	68	-	-	-	-	-	-	-	68	-	68
Other	-	-	-	-	-	1,153	-	(2,725)	-	-	-	-	(1,572)	(988)	(2,560)
Balance at 31 December 2018	322,500	-	374,059	-	1,533,677	642,697	(13,567)	1,611,312	14,727	(957)	(402,131)	765,757	4,848,074	79,217	4,927,291

	2017														
	Attributable to equity holders of the parent														
	Share capital - common shares L.L. million	Share capital - preferred shares L.L. million	Share premium on common shares L.L. million	Share premium on preferred shares L.L. million	Non-distributable reserves L.L. million	Distributable reserves L.L. million	Treasury shares L.L. million	Retained earnings L.L. million	Revaluation reserve of real estate L.L. million	Change in fair value of financial assets at fair value through other comprehensive income L.L. million	Foreign currency translation reserve L.L. million	Profit for the year L.L. million	Total L.L. million	Non-controlling interests L.L. million	Total equity L.L. million
Balance at 1 January 2017	258,000	24,000	374,059	277,500	1,192,652	559,860	(16,941)	1,413,258	14,727	550	(426,713)	676,443	4,347,395	73,235	4,420,630
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	726,701	726,701	4,846	731,547
Other comprehensive income	-	-	-	-	-	-	-	-	-	64	16,572	-	16,636	73	16,709
Total comprehensive income	-	-	-	-	-	-	-	-	-	64	16,572	726,701	743,337	4,919	748,256
Call of preferred shares	-	(24,000)	-	(277,500)	-	-	-	-	-	-	-	-	(301,500)	-	(301,500)
Capital increase	64,500	-	-	-	(64,500)	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to distributable & non-distributable reserves	-	-	-	-	3,367	(4,120)	-	753	-	-	-	-	-	-	-
Dividends distributions (note 43)	-	-	-	-	-	-	-	-	-	-	-	(343,263)	(343,263)	(1,499)	(344,762)
Appropriation of 2016 profits	-	-	-	-	179,455	45,470	-	108,254	-	-	-	(333,179)	-	-	-
Change in non-controlling interest	-	-	-	-	(6)	(3)	-	(9)	-	-	-	(1)	(19)	19	-
Purchase of treasury shares (note 39)	-	-	-	-	-	-	(37,564)	-	-	-	-	-	(37,564)	-	(37,564)
Sale of treasury shares (note 39)	-	-	-	-	-	-	46,032	-	-	-	-	-	46,032	-	46,032
Net gain on sale of treasury shares (note 39)	-	-	-	-	3,408	-	-	-	-	-	-	-	3,408	-	3,408
Other	-	-	-	-	(1,598)	-	-	(1,796)	-	-	-	-	(3,394)	(485)	(3,879)
Balance at 31 December 2017	322,500	-	374,059	-	1,312,778	601,207	(8,473)	1,520,460	14,727	614	(410,141)	726,701	4,454,432	76,189	4,530,621

The accompanying notes 1 to 50 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 LL million	2017 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax		950,454	911,367
Adjustments for:			
Depreciation of property and equipment	26	37,670	35,368
Amortization of intangible assets	27	1,890	2,003
Loss on disposal of property and equipment		1,255	403
Net impairment losses on financial assets	13	16,814	19,101
Provision for impairment of assets obtained in settlement of debt	28	2,324	110
Write-back of provision on assets obtained in settlement of debt	28	(352)	(749)
Net provision for risks and charges		4,227	14,683
Gain on disposal of assets obtained in settlement of debt	12	-	(1,662)
Net loss (gain) from sale of financial assets at amortized cost	11	5,498	(60,420)
Unrealized loss on financial assets at fair value through profit or loss	10	10,676	9,882
Impairment of goodwill	30	-	89,720
Release of provisions for risks and charges	12	-	(105,552)
Other		-	(4,184)
		<u>1,030,456</u>	<u>910,070</u>
Changes in operating assets and liabilities:			
Balances with central banks		(2,604,686)	(5,283,310)
Repurchase agreements		4,750	-
Due from banks and financial institutions		455,666	(47,566)
Loans to banks and financial institutions		6,649	16,040
Derivative financial instruments – debit		1,649	32,779
Financial assets at fair value through profit or loss		(8,262)	13,062
Net loans and advances to customers at amortized cost		527,583	(646,686)
Net loans and advances to related parties at amortized cost		3,702	63,412
Other assets		19,949	(43,060)
Due to banks and financial institutions		114,344	(79,708)
Derivative financial instruments – credit		(11,766)	851
Customers' deposits at amortized cost		436,385	2,837,192
Deposits from related parties at amortized cost		(21,353)	(76,919)
Other liabilities		19,462	30,678
Provisions for risks and charges	36	(181,592)	(89,720)
Cash used in operations		<u>(207,064)</u>	<u>(2,362,885)</u>
Taxes paid		(142,563)	(208,704)
Provisions for risks and charges paid		(5,943)	(4,660)
Net cash used in operating activities		<u>(355,570)</u>	<u>(2,576,249)</u>
INVESTING ACTIVITIES			
Financial assets at amortized cost		445,933	3,198,978
Financial assets at fair value through other comprehensive income		(10,381)	(409)
Assets obtained in settlement of debt		369	(8,462)
Purchase of property and equipment	26	(52,836)	(75,699)
Purchase of intangible assets	27	(4,200)	(1,426)
Transfer of property and equipment and intangible assets	26&27	(113)	154
Transfer of assets obtained in settlement of debt	28	-	7
Cash proceeds from the sale of property and equipment and intangible assets		6,035	1,691
Acquisition of a subsidiary, net of cash acquired	30	-	(13,178)
Net cash from investing activities		<u>384,807</u>	<u>3,101,656</u>
FINANCING ACTIVITIES			
(Purchase) sale of treasury shares – net		(5,094)	8,468
Net gain on sale of treasury shares		68	3,408
Dividends paid	43	(364,338)	(343,263)
Dividends paid to non-controlling interests in a subsidiary company		(1,245)	(1,499)
Call of preferred shares		-	(301,500)
Debt issued and other borrowed funds	34	456,288	-
Net cash from (used in) financing activities		<u>85,679</u>	<u>(634,386)</u>
Effect of exchange rate changes		(6,023)	(7,825)
Increase (decrease) in cash and cash equivalents		<u>108,893</u>	<u>(116,804)</u>
Cash and cash equivalents at 1 January		4,850,688	4,967,492
Cash and cash equivalents at 31 December	42	<u>4,959,581</u>	<u>4,850,688</u>
Operational cash flows from interest and dividends			
Interest paid		(2,092,748)	(1,623,975)
Interest received		3,172,759	2,735,959
Dividends received		9,960	7,951

1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Verdun, Rashid Karamah Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and Luxembourg Stock Exchange.

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of retail, commercial, investment and private banking activities, insurance and brokerage services through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa. Further information on the Group's structure is provided in note 4.

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 22 March 2019.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Lebanese Pounds (LL) and all values are rounded to the nearest LL million, except when otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than 1 year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of BLOM Bank SAL and its subsidiaries as at 31 December 2018. Details of the principal subsidiaries are given in note 5.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights result in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee;
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value at the date of loss of control.

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognized in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognized in other comprehensive income are transferred to consolidated income statement.

Non-controlling interests

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interest in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new amendment is described below:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group adopted the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No.293.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (2014). Therefore, the comparative information for 2017 is reported under IFRS 9 (2009, 2010 and 2013) and IAS 39 impairment requirements and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 (2014) have been recognized directly in retained earnings or reserves (as applicable) as of 1 January 2018 and are disclosed in section V below.

I. Classification and measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category fair value through other comprehensive income was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortized cost information, as well as fair value information is relevant and useful. A debt financial asset is measured at fair value through OCI if:

- it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and
- it satisfies the contractual cash flow characteristics (SPPI test).

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The Group's classification of its financial assets and liabilities is explained in note 2.5. The impact on the classification of the Group's financial assets and their carrying values and equity is discussed in V below.

II. Expected Credit Losses

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Equity instruments are not subject to impairment under IFRS 9.

Details of the Group's impairment method are disclosed in note 2.5. The impact of the adoption of IFRS 9 impairment provisions on the Group's financial assets and their carrying values and equity is discussed in section V below.

2. ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

III. IFRS 7 disclosures

IFRS 7 Financial Instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Group together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in V below, and detailed qualitative and quantitative information about the ECL calculations such as assumptions and inputs used.

IV. Hedge accounting

The Group has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.

There is no impact on the financial statements as the Group does not have hedged items measured at FVOCI.

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following tables set out the impact of adopting IFRS 9 (2014) on the consolidated statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

BLOM Bank SAL

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

V. Transition (continued)

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at 1 January 2018.

	Classification under IFRS 9 (2010) (31 December 2017)		Reclassification LL million	Re-measurement		Classification under IFRS 9 (2014) (1 January 2018)	
	Category	Amount LL million		ECL LL million	Other LL million	Category	Amount LL million
Financial assets							
Cash and balances with central banks	Amortized cost	24,630,491	-	(62,873)	-	Amortized cost	24,567,618
Due from banks and financial institutions	Amortized cost	3,563,253	-	(4,443)	-	Amortized cost	3,558,810
Loans to banks and financial institutions	Amortized cost	44,513	-	(281)	-	Amortized cost	44,232
Financial assets at fair value through profit or loss	FVPL	363,715	(4,178)	-	-	FVPL	359,537
Net loans and advances to customers at amortized cost	Amortized cost	11,335,975	-	(46,900)	-	Amortized cost	11,289,075
Net loans and advances to related parties at amortized cost	Amortized cost	28,145	-	(13)	-	Amortized cost	28,132
Debtors by acceptances	Amortized cost	150,791	-	(753)	-	Amortized cost	150,038
Financial assets at amortized cost	Amortized cost	7,856,375	-	(17,278)	-	Amortized cost	7,839,097
Financial assets at fair value through other comprehensive income	FVOCI	4,224	4,178	-	(2,192)	FVOCI	6,210
				(132,541)	(2,192)		
Non-financial liabilities							
Provisions for ECL on financial guarantees and commitments		3,457,686	-	(3,273)	-		3,454,413
Total impact of adoption of IFRS 9 (2014)				(135,814)	(2,192)		
Less: amount covered by excess provisions available on 1 January 2018				126,298	-		
Less: amount covered by provision for risks and charges				1,543	-		
Net impact on equity				(7,973)	(2,192)		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LL 135,814 million and was covered partly by the Group's excess provisions. Accordingly, the impact on the Group's equity from the adoption of the IFRS 9 impairment requirements amounted to LL 7,973 million, out of which the share of non-controlling interests amounts to LL 351 million.

Total adjustments related to classification and measurements other than impairment will reduce opening "Change in fair value of financial assets at fair value through other comprehensive income" reserve by LL 2,192 million.

2 ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretations (continued)

*IFRS 9 Financial Instruments (continued)**V. Transition (continued)*

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provision Contingent Liabilities and Contingent Assets* to the ECL allowance under IFRS 9.

	<i>Impairment allowance under IAS 39/IAS 37 at 31 December 2017 LL million</i>	<i>Re-measurement impact of IFRS 9 LL million</i>	<i>ECLs under IFRS 9 at 1 January 2018 LL million</i>
Impairment allowance for			
Cash and balances with central banks	-	62,873	62,873
Due from banks and financial institutions	1,752	4,443	6,195
Loans to banks and financial institutions	-	281	281
Net loans and advances to customers at amortized cost	443,762	46,900	490,662
Net loans and advances to related parties at amortized cost	-	13	13
Debtors by acceptances	-	753	753
Financial assets at amortized cost	5,637	17,278	22,915
	<u>451,151</u>	<u>132,541</u>	<u>583,692</u>
Financial guarantees and other commitments	-	3,273	3,273
	<u>451,151</u>	<u>135,814</u>	<u>586,965</u>

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. There were no significant impacts from the adoption of IFRS 15 on the consolidated financial statements of the Group.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments did not have a significant impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of transaction for each payment or receipt of advance consideration. This Interpretation did not have a significant impact on the Group's consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, for periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities with no material impact on its retained earnings.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity’s tax treatment. The effective date is 1 January 2019. The Group is currently assessing the impact of IFRIC 23 and does not expect it to have a material impact on the Group’s financial statements.

IAS 12 – Income Taxes Amendments to IAS 12

As part of the Annual Improvements to IFRS Standards 2015–2017 Cycle, the IASB amended IAS 12 in order to clarify the accounting treatment of the income tax consequences of dividends. Effective from 1 January 2019 the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, will be included in, and will reduce, the income statement tax charge. The Group does not expect that the adoption of this improvement will have a significant impact on the Group’s financial statements.

IAS 19 – Employee Benefits Amendments to IAS 19

The IASB issued amendments to the guidance in IAS 19 Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Adoption of the amendments is not expected to have significant impact on the Group.

2. ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in Lebanese Pounds (LL) which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(ii) Group companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date.

Financial instruments – Initial recognition

(i) Date of recognition

All financial assets and liabilities are initially recognized on the settlement date. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the case of a financial instrument measured at fair value, with the change in fair value being recognized in profit or loss, the transaction costs are recognized as revenue or expense when the instrument is initially recognized.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 profit or loss

When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – Classification and measurement

On initial recognition, financial assets are classified as measured at: amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:

- (i) The business model within which financial assets are measured; and
- (ii) Their contractual cash flow characteristics (whether the cash flows represent “solely payments of principal and interest” (SPPI)).

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

All other financial assets are classified as measured at fair value through profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

On initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Financial assets – Classification and measurement (continued)****The SPPI test**

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit and loss.

Financial assets at amortized cost

Balances with central banks, Due from banks and financial institutions, Loans to banks and financial institutions and Net loans and advances to customers and related parties – at amortized cost and Finance assets at amortized cost

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortized cost using the EIR, less expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in “interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net impairment losses on financial assets”. Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under “Net (loss) gain from derecognition of financial assets at amortized cost” in the consolidated income statement.

Financial assets at fair value through other comprehensive income

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Dividends on these investments are recognised under “Revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’s right to receive payment of dividend is established in accordance with IFRS 15: “Revenue from contracts with customers”, unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

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For the year ended 31 December 2018

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – Classification and measurement (continued)*Financial assets at fair value through profit or loss*

Included in this category are those debt instruments that do not meet the conditions in “*financial assets at amortized cost*” and “*financial assets at fair value through other comprehensive income*” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognizing gains and losses on them on a different basis.

Debt instruments at fair value through profit or loss

These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognized as revenue or expense when the instrument is initially recognized. Changes in fair value and interest income are recorded under “Net gain from financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under “Net gain from financial assets at fair value through profit or loss” in the consolidated income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain from financial assets at fair value through profit or loss” in the consolidated income statement.

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and measurement

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and
- Contingent consideration recognized in a business combination in accordance with IFRS 3.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instruments is first considered that separation of the embedded derivatives is prohibited.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and measurement (continued)

Financial liabilities at fair value through profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit and loss due to changes in the Group's own credit risk. Such changes in fair value are recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit and loss is accrued in interest expense using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Debt issued and other borrowed funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under "Debt issued and other borrowed funds" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to central banks, Banks and financial institutions, Repurchase agreements and Customers' and related parties' deposits

After initial measurement, due to central banks, banks and financial institutions, and customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the "underlying").
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, forward foreign exchange contracts, equity swaps and options and currency options.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derivatives recorded at fair value through profit or loss (continued)

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognized in "Net gain from financial assets at fair value through profit or loss" in the consolidated income statement, unless hedge accounting is applied, which is discussed in under "hedge accounting policy" below.

Embedded Derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a consolidated financial instrument.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;
- (b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- (c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Financial guarantees, Letters of credit and undrawn loan commitments

Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated income statement, and an ECL provision. The premium received is recognized in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

Reclassification of financial assets

The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the Group's Senior Management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Derecognition of financial assets and financial liabilities*****Financial assets******(i) Derecognition due to substantial modification of terms and conditions***

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

(ii) Derecognition other than for substantial modification

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

(ii) ***Derecognition other than for substantial modification (continued)***

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement, as "other operating income" or "other operating expenses".

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Repurchase and reverse repurchase agreements (continued)**

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net gain from financial instruments at fair value through profit or loss" in the income statement.

Impairment of financial assets (Policy applicable from 1 January 2018)**(i) Overview of the ECL principles**

As described in note 2.3, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which cases, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(ii) Measurement of ECLs

The Group measures ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

The key inputs into the measurements of ECL are:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward looking information is incorporated in ECL measurements.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Impairment of financial assets (Policy applicable from 1 January 2018) (continued)****(ii) Measurement of ECLs (continued)**

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage, the allowance for credit losses captures the lifetime expected credit losses, similar to Stage 2.

(iii) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognized, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- At least a 12-month probation period has passed,
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- All the terms and conditions agreed to as part of the restructuring have been met.

If modifications are substantial, the loan is derecognized, as explained above.

(iv) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at fair value through other comprehensive income are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Impairment of financial assets (Policy applicable from 1 January 2018) (continued)****(v) Write offs**

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

(vi) Debt instruments at fair value through other comprehensive income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

(vii) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realizable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserve for increase of share capital" in the following financial year.

Impairment of financial assets (Policy applicable before 1 January 2018)

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets at amortized cost

For financial assets carried at amortized cost (such as due from banks and financial institutions, debt instruments at amortized cost, loans and advances to customers and related parties), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (Policy applicable before 1 January 2018) (continued)

(i) Financial assets at amortized cost (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Net impairment losses on financial assets" in the consolidated income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realizable value.

Upon sale of repossessed assets, any gain or loss realized is recognised in the consolidated income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserve for increase of share capital" in the following financial year.

Fair value measurement

The Group measures financial instruments, such as, derivatives, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each consolidated statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for recurring fair value measurement, such as unquoted financial assets.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Hedge accounting

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk and interest rate fluctuations. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

Qualifying hedging relationships

The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the hedge effectiveness requirements.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Hedge accounting (continued)***Qualifying hedging relationships (continued)*

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter on an ongoing basis. A hedge is expected to be highly effective if:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

(i) Fair value hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognized in the consolidated income statement under "Net gain from financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognized in the consolidated income statement also under "Net gain from financial assets at fair value through profit or loss".

(ii) Cash flow hedges

For qualifying cash flow hedges, a consolidated component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) The cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognized in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognized in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

(iii) Hedge of net investments

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Bank as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

The effective interest rate

Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortised cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and interest expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Revenue recognition (continued)***Interest income and interest expense (continued)*

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortized cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Group reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized as revenues on expiry.

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain from financial instruments at fair value through profit or loss

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities and financial assets designated as at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(v) Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporize method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage. If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, due to central banks, repurchase agreements and due to banks and financial institutions.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Property and equipment**

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Furniture, office installations and computer equipment	(2– 16.67) years
Vehicles	6.67 years

Any item of property and equipment and any significant part initially recognized are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognized.

The asset's residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

Assets obtained in settlement of debt

Assets obtained in settlement of debt are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating segments".

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

The Group does not have intangible assets with indefinite economic life.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money lower of lease period or 5 years
- Software development 2.5 years

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions for risks and charges

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its consolidated financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Employees' end-of-service benefits

For the Group and its subsidiaries operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Group is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Group provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

Taxes

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(i) *Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) *Deferred tax*

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

Assets held in custody and under administration

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Group and accordingly are recorded as off-balance sheet items.

Dividends on common shares

Dividends on common shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Customers' acceptances

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the consolidated statement of financial position for the same amount.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Impairment of goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

Business model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether management's strategy focuses on earning contractual interest revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets

The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Estimates and assumptions (continued)***Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment losses on financial instruments (Applicable after 1 January 2018)

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs and their impact on ECL calculation; and
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment losses on loans and advances (Applicable before 1 January 2018)

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Estimates and assumptions (continued)***Pensions Obligation*

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

4 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of BLOM Bank SAL and the following subsidiaries:

Name	Country of incorporation	Activities	% effective equity interest	
			31 December 2018	31 December 2017
			%	%
BLOM Bank France SA	France	Banking activities	99.998	99.998
BLOM Bank (Switzerland) SA	Switzerland	Banking activities	99.998	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	99.920	99.920
BLOM Development Bank SAL	Lebanon	Islamic banking activities	99.912	99.918
Arope Insurance SAL	Lebanon	Insurance activities	89.048	89.039
BLOM Bank Egypt SAE	Egypt	Banking activities	99.419	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	99.665	99.665
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial institution	59.960	59.960
BLOM Bank Qatar LLC	Qatar	Banking activities	99.750	99.750
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	91.123	91.116
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	93.197	93.192
BLOM Securities	Jordan	Financial institution	100.000	100.000
BLOM Asset Management Company SAL	Lebanon	Investment activities	99.997	99.997
BLOM Asset Management Company SAE	Egypt	Investment activities	99.677	99.677

5 MATERIAL PARTLY – OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interests held by non-controlling interests:

Name	2018	2017
	%	%
BLOMInvest – Saudi Arabia	40.04	40.04
Arope Insurance SAL	10.952	10.961

Profit allocated to material non-controlling interests:

	2018	2017
	LL million	LL million
BLOMInvest – Saudi Arabia	1,738	1,347
Arope Insurance SAL	3,283	3,062

5 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

Summarized statement of comprehensive income

	<i>BLOMInvest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Net interest income	358	370	27,659	23,254
Net fee and commission income	9,513	10,779	31,985	30,828
Net gain (loss) from financial instruments at fair value through profit or loss	689	(382)	56	154
Revenue from financial assets at fair value through other comprehensive income	429	-	-	-
Other operating income	1,136	-	863	389
Total operating income	12,125	10,767	60,563	54,625
Net impairment (recovery of impairment) losses on financial assets	-	-	1,324	(74)
Total operating expenses	(7,424)	(7,019)	(29,434)	(24,022)
Net (loss) gain on disposal of other assets	(19)	87	-	(1)
Profit before tax	4,682	3,835	32,453	30,528
Income tax expense	(342)	(470)	(2,476)	(2,594)
Profit for the year	4,340	3,365	29,977	27,934
Attributable to non-controlling interests	1,738	1,347	3,283	3,062

Summarized statement of financial position

	<i>BLOMInvest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
ASSETS				
Cash and balances with banks	1	10	51	32
Due from banks and financial institutions	3,106	14,455	96,087	323,929
Due from head office and sister banks	393	179	346,147	93,812
Financial assets at fair value through profit or loss	53,391	54,872	4,185	7,975
Net loans and advances at amortized cost	-	-	31,280	25,898
Financial assets at amortized cost	9,215	5,152	15,574	15,749
Financial assets at fair value through other comprehensive income	11,825	-	-	-
Investments in subsidiaries and associates	-	-	36,542	36,542
Property and equipment	18,325	23,478	23,573	24,989
Intangible assets	182	78	655	345
Other assets	49,986	42,160	58,069	80,350
Total assets	146,424	140,384	612,163	609,621
LIABILITIES				
Other liabilities	15,875	12,938	334,726	338,981
Provisions for risks and charges	904	705	51,512	57,559
Total liabilities	16,779	13,643	386,238	396,540
TOTAL SHAREHOLDERS' EQUITY	129,645	126,741	225,925	213,081
<i>Attributable to non-controlling interests</i>	<i>51,870</i>	<i>50,708</i>	<i>24,742</i>	<i>23,355</i>
Total liabilities and shareholders' equity	146,424	140,384	612,163	609,621

5 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

Summarized cash flow information

Type of activities	<i>BLOM Invest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	2018 <i>LL million</i>	2017 <i>LL million</i>	2018 <i>LL million</i>	2017 <i>LL million</i>
Operating	(9,598)	(229,845)	21,265	19,390
Investing	(59,378)	15,139	(28,320)	(36,854)
Financing	-	-	(13,777)	(21,277)
	<u>(68,976)</u>	<u>(214,706)</u>	<u>(20,832)</u>	<u>(38,741)</u>

6 SEGMENTAL INFORMATION

The Group operates in four major business segments: retail; corporate; treasury and asset management and private banking.

Treasury is mostly responsible for the liquidity management and market risk of the Group as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investments products and services to investors and other institutional customers.

Corporate banking provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

Retail banking provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, fund transfers, foreign exchange and other branch related services.

Asset management and private banking provides investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net operating income. Income taxes, total operating expenses and net loss on disposal of fixed assets are managed on a group basis and are not allocated to operating segments.

Interest income is reported net since Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

6 SEGMENTAL INFORMATION (continued)

The following table presents net operating income, total assets and total liabilities information in respect of the Group's reportable segments:

Profit for the year information

	2018					Total LL million
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Unallocated(*) LL million	
Net interest income	805,689	240,236	215,753	5,439	-	1,267,117
Net fee and commission income	44,981	47,536	67,373	20,521	34,445	214,856
Net gain from financial instruments at fair value through profit or loss	2,786	-	31,985	-	-	34,771
Net loss from sale of financial assets at amortized cost	(5,498)	-	-	-	-	(5,498)
Revenue from financial assets at fair value through other comprehensive income	917	-	-	-	-	917
Other operating income	6,493	1,798	28,430	-	-	36,721
Net impairment losses on financial assets	2,415	4,822	(24,051)	-	-	(16,814)
Net operating income	857,783	294,392	319,490	25,960	34,445	1,532,070
Extracts of results						
Depreciation and amortization						(39,560)
Unallocated expenses						(542,056)
Income tax expense						(179,184)
Profit for the year						771,270
	2017					
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Unallocated(*) LL million	Total LL million
Net interest income	696,878	205,984	207,957	1,175	-	1,111,994
Net fee and commission income	40,155	40,547	65,155	43,159	16,761	205,777
Net gain from financial instruments at fair value through profit or loss	6,220	-	31,833	-	-	38,053
Net gain from sale of financial assets at amortized cost	60,420	-	-	-	-	60,420
Revenue from financial assets at fair value through other comprehensive income	340	-	-	-	-	340
Other operating income	108,748	1,422	19,223	-	-	129,393
Net impairment losses on financial assets	-	3,259	(22,360)	-	-	(19,101)
Net operating income	912,761	251,212	301,808	44,334	16,761	1,526,876
Extracts of results						
Depreciation and amortization						(37,371)
Unallocated expenses						(578,138)
Income tax expense						(179,820)
Profit for the year						731,547

(*) "Unallocated" include insurance premiums' commissions from insurance subsidiaries.

6 SEGMENTAL INFORMATION (continued)

Financial position information

	2018					
	<i>Treasury LL million</i>	<i>Corporate banking LL million</i>	<i>Retail banking LL million</i>	<i>Asset management and private banking LL million</i>	<i>Other (**) LL million</i>	<i>Total LL million</i>
Total assets	43,345,159	6,388,913	4,539,527	64,375	1,048,564	55,386,538
Total liabilities	39,292,401	5,791,552	4,115,082	74,785	1,185,427	50,459,247
	2017					
	<i>Treasury LL million</i>	<i>Corporate banking LL million</i>	<i>Retail banking LL million</i>	<i>Asset management and private banking LL million</i>	<i>Other (**) LL million</i>	<i>Total LL million</i>
Total assets	36,482,970	6,556,237	4,824,781	133,951	1,062,165	49,060,104
Total liabilities	32,827,463	5,899,318	4,341,349	133,723	1,327,630	44,529,483

(**) Other includes activities related to property and equipment, intangible assets, assets obtained in settlement of debt, other assets and goodwill.

Geographic information

The Group operates in two geographic markets based on the location of its markets and customers. The domestic market represents the Lebanese market, and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income and non-current assets.

	2018		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Total operating income	1,393,054	155,830	1,548,884
Net impairment losses on financial assets	(19,396)	2,582	(16,814)
Net operating income ¹	1,373,658	158,412	1,532,070
Non-current assets ²	599,716	269,360	869,076
	2017		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Total operating income	1,412,111	133,866	1,545,977
Net impairment losses on financial assets	(8,770)	(10,331)	(19,101)
Net operating income ¹	1,403,341	123,535	1,526,876
Non-current assets ²	591,503	271,221	862,724

¹ Net operating income is attributed to the geographical segment based on the location where the income is generated.

² Non-current assets consist of property and equipment, intangible assets, assets obtained in settlement of debt and goodwill.

7 INTEREST AND SIMILAR INCOME

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Balances with central banks	2,000,666	1,205,073
Due from banks and financial institutions	86,519	74,445
Reverse repurchase agreements	2,006	1,604
Loans and advances to customers at amortized cost	884,699	814,806
Loans and advances to related parties at amortized cost	1,220	1,320
Financial assets at amortized cost	548,564	709,146
Less: tax on interest income (*)	(158,292)	(22,870)
	<u>3,365,382</u>	<u>2,783,524</u>

(*) Tax on interest income for the years ended 31 December 2018 and 2017 are as follows:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Balances with central banks	135,178	18,752
Due from banks and financial institutions	389	14
Reverse repurchase agreements	140	1
Loans and advances to customers at amortized cost	3	-
Financial assets at amortized cost	22,582	4,103
	<u>158,292</u>	<u>22,870</u>

8 INTEREST AND SIMILAR EXPENSE

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Due to central banks	84,843	13,625
Due to banks and financial institutions	26,495	27,889
Customers' deposits at amortized cost	1,954,511	1,622,011
Deposits from related parties at amortized cost	8,291	8,005
Debt issued and other borrowed funds	24,125	-
	<u>2,098,265</u>	<u>1,671,530</u>

9 NET FEE AND COMMISSION INCOME

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Fee and commission income		
General banking income	48,255	45,555
Credit-related fees and commissions	37,491	38,689
Insurance brokerage income	40,197	35,003
Trade finance	30,324	24,624
Brokerage and custody income	17,661	19,783
Electronic banking	68,763	56,503
Asset management and private banking	18,130	25,421
Trust and fiduciary activities	3,358	1,680
Other fees and commissions	13,810	15,758
	<u>277,989</u>	<u>263,016</u>
Fee and commission expense		
General banking Expenses	(6,633)	(7,080)
Credit-related fees and commissions	(1,921)	(1,432)
Insurance brokerage fees	(19,677)	(18,242)
Brokerage and custody fees	(2,348)	(2,256)
Electronic banking	(27,899)	(21,444)
Other fees and commissions	(4,655)	(6,785)
	<u>(63,133)</u>	<u>(57,239)</u>
	<u>214,856</u>	<u>205,777</u>

10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills and bonds	3,857	4,468
- Corporate debt securities	373	740
- Certificates of deposit	-	146
- Funds	508	359
	<u>4,738</u>	<u>5,713</u>
Net (loss) gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills and bonds	(247)	(1,197)
- Corporate debt securities	(3)	330
- Certificates of deposit	-	45
- Funds	(134)	1,594
- Options	(42)	(15)
- Equity instruments	11	588
	<u>(415)</u>	<u>1,345</u>

10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Net unrealized loss from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills and bonds	(7,907)	1,302
- Corporate debt securities	(317)	142
- Certificates of deposit	-	(47)
- Funds	(1,664)	(1,556)
- Equity instruments	(788)	(9,723)
	<u>(10,676)</u>	<u>(9,882)</u>
Dividend income		
- Equity instruments	8,884	7,544
- Funds	204	67
	<u>9,088</u>	<u>7,611</u>
Foreign exchange income	<u>32,036</u>	<u>33,266</u>
	<u>34,771</u>	<u>38,053</u>

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading and structural positions.

11 NET (LOSS) GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortized cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of financial assets by the Central Bank of Lebanon;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from derecognition of these financial assets:

	<u>2018</u>		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	-	(5,200)	(5,200)
Treasury bills and bonds	67	(1,052)	(985)
	<u>67</u>	<u>(6,252)</u>	<u>(6,185)</u>
Other sovereign:			
Treasury bills and bonds	715	-	715
Private sector and other securities:			
Corporate debt securities	371	(399)	(28)
	<u>1,153</u>	<u>(6,651)</u>	<u>(5,498)</u>

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11 NET (LOSS) GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST (continued)

	2017		Total LL million
	Gains LL million	Losses LL million	
Lebanese sovereign and Central Bank of Lebanon Certificates of deposit	57,435	-	57,435
Treasury bills and bonds	14,841	(15,363)	(522)
	<u>72,276</u>	<u>(15,363)</u>	<u>56,913</u>
Other sovereign: Treasury bills and bonds	9	-	9
Private sector and other securities: Corporate debt securities	4,247	(749)	3,498
	<u>76,532</u>	<u>(16,112)</u>	<u>60,420</u>

12 OTHER OPERATING INCOME

	2018 LL million	2017 LL million
Write back of provisions for risks and charges (note 36)	16,971	4,312
Write back of provisions for assets taken in settlement of debt (note 28)	352	749
Release of provisions for risks and charges (note 36)	-	105,552
Gain from sale of assets obtained in settlement of debt	-	1,662
Other income	19,398	17,118
	<u>36,721</u>	<u>129,393</u>

13 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018 LL million	2017 LL million
<i>New and increased impairment allowances:</i>		
Loans and advances to customers at amortized cost- Commercial loans	84,934	17,097
Loans and advances to customers at amortized cost- Consumer loans	58,357	37,419
Financial assets at amortized cost	4	-
Financial guarantees and commitments	44	-
Debtors by acceptances	11	-
Commitment by signature (note 36)	-	78
	<u>143,350</u>	<u>54,594</u>
<i>Recoveries:</i>		
Loans and advances to customers at amortized cost- Commercial loans	(77,414)	(6,999)
Loans and advances to customers at amortized cost- Consumer loans	(34,305)	(13,371)
Unrealized interest on loans and advances to customers at amortized cost	-	(7,563)
Financial assets at amortized cost	(23)	-
Banks and financial institutions	(2,397)	-
Financial guarantees and commitments	(198)	-
	<u>(114,337)</u>	<u>(27,933)</u>
Recoveries of debts previously written off	(11,349)	(7,560)
Recoveries of sundry debtors (note 29)	(850)	-
	<u>16,814</u>	<u>19,101</u>

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14 PERSONNEL EXPENSES

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Salaries and related charges	166,090	150,888
Social security contributions	32,520	31,743
Provisions for retirement benefits obligation (note 36)	10,507	4,923
Additional allowances	50,577	46,108
Bonuses	88,601	83,956
	<u>348,295</u>	<u>317,618</u>

15 OTHER OPERATING EXPENSES

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Professional fees	25,213	20,727
Marketing and advertising	19,203	18,132
Provision for guarantee of deposits	16,114	15,844
Maintenance and repairs	15,841	16,185
Gifts and donations	12,322	10,495
Provision for risks and charges (note 36)	10,785	859
Postage and telecommunications	10,374	10,185
Rent and related charges	9,244	10,211
Taxes and fees	8,394	6,392
Information technology	7,852	4,046
Electricity and fuel	6,703	5,771
Fiscal stamps	6,587	6,744
Guarding and transportation expenses	5,281	4,938
Subscriptions	5,659	5,883
Stationary and printings	4,677	6,488
Card expenses	4,666	4,132
Travel expenses	3,120	3,248
Board of directors' attendance fees	2,423	2,164
Provision on impairment of assets taken in settlement of debt (note 28)	2,324	110
Insurance	1,868	1,614
Entertainment expenses	1,691	1,794
Loss on bad debts against real estate (a)	-	4,886
Others	12,165	9,549
	<u>192,506</u>	<u>170,397</u>

(a) The Board of Directors of BLOM Bank SAL and BLOMInvest Bank SAL approved on 13 July 2017 and 12 July 2017 respectively to acquire a number of real estate plots mortgaged in favor of BLOM Bank SAL and BLOMInvest Bank SAL in full settlement of the participation loan (90% by BLOM Bank SAL and 10% by BLOMInvest Bank SAL) granted to Zeitoun 1589 SAL in accordance with Article 154 of the Code of Money and Credit. The acquisition amounting to US\$ 8,220,894 (LL 12,393 million) was approved by the Banking Control Commission on 2 August 2017. During 2017, the Group realized a loss of US\$ 3,241,118 (LL 4,886 million) as a result of the settlement on this debt.

16 INCOME TAX EXPENSE

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

Effective October 2017, the applicable tax rates for entities operating in Lebanon increased from 15% to 17%. Furthermore, tax on interest increased from 5% to 7% and is no longer allowed as a tax credit. Instead, it became a deductible expense for the purpose of calculation of taxable profit.

Reconciliation of total tax charge

The relationship between taxable profit and accounting profit is as follow:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Profit before income tax	950,454	911,367
Less: Results of the subsidiary insurance company located in Lebanon (*)	(32,454)	(30,528)
Accounting profit before income tax	<u>918,000</u>	<u>880,839</u>
Add:		
Non-tax deductible provisions	7,196	110,026
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	11,149	9,423
Net loss on disposal of fixed assets	-	623
Other non-tax deductible charges	50,417	40,780
	<u>986,762</u>	<u>1,041,691</u>
Less:		
Dividends received and previously subject to income tax	(11,365)	(11,346)
Remunerations already taxed	(24,369)	(19,791)
4% of a subsidiary's capital eligible to be tax deductible	(400)	(400)
Release of provisions previously subject to income tax	(80,000)	(4,358)
Net gain on disposal of fixed assets	(499)	-
Other non-taxable income	(3,060)	(3,536)
Taxable profit	<u>867,069</u>	<u>1,002,260</u>
Effective income tax rate	<u>18.85%</u>	<u>19.73%</u>
Income tax expense in the consolidated income statement	<u>179,184</u>	<u>179,820</u>

(*) The insurance company in Lebanon is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

17 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculations:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Net profit for the year	771,270	731,547
Less: Non-controlling interests	(5,513)	(4,846)
Net profit attributable to ordinary equity holders of the parent	<u>765,757</u>	<u>726,701</u>
Weighted average number of ordinary shares for basic earnings per share	<u>214,292,618</u>	<u>214,108,030</u>
Basic earnings per share	<i>LL</i> <u>3,573</u>	<u>3,394</u>

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these consolidated financial statements.

18 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Cash on hand	283,800	266,712
Current accounts with central banks	2,268,147	1,676,025
Deposits with central banks (a)	30,663,987	22,687,754
	<u>33,215,934</u>	<u>24,630,491</u>
Less: Allowance for expected credit losses	<u>(80,527)</u>	<u>-</u>
	<u>33,135,407</u>	<u>24,630,491</u>

(a) At 31 December 2018, time deposits with the Central Bank of Lebanon amounting to LL 4,197,910 million and maturing in 2028 were blocked against term borrowings granted by the Central bank of Lebanon with the same value and maturing in 2028 (2017: nil) (note 31).

Obligatory Reserves:

Cash and balances with central banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Lira as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments, after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements at the rate of 15% of total deposits in foreign currencies regardless of nature.

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

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18 CASH AND BALANCES WITH CENTRAL BANKS (continued)

The following table summarizes the Group's placements in central banks available against the obligatory reserves as of 31 December:

	<i>2018</i>		
	<i>Lebanese Pounds LL million</i>	<i>Foreign currency LL million</i>	<i>Total LL million</i>
Obligatory reserve			
Central Bank of Lebanon	284,207	3,715,883	4,000,090
Other central banks	-	480,034	480,034
	<u>284,207</u>	<u>4,195,917</u>	<u>4,480,124</u>
	<i>2017</i>		
	<i>Lebanese Pounds LL million</i>	<i>Foreign currency LL million</i>	<i>Total LL million</i>
Obligatory reserve			
Central Bank of Lebanon	329,579	3,508,810	3,838,389
Other central banks	-	432,194	432,194
	<u>329,579</u>	<u>3,941,004</u>	<u>4,270,583</u>

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2018 LL million</i>	<i>2017 LL million</i>
Current accounts	1,142,900	1,546,760
Time deposits	1,227,785	2,018,245
	<u>2,370,685</u>	<u>3,565,005</u>
Less: Allowance for expected credit losses/Impairment allowance	(3,916)	(1,752)
	<u>2,366,769</u>	<u>3,563,253</u>

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2018 LL million</i>	<i>2017 LL million</i>
Loans to banks and financial institutions	37,984	44,182
Accrued interest receivable	163	331
	<u>38,147</u>	<u>44,513</u>
Less: Allowance for expected credit losses	(283)	-
	<u>37,864</u>	<u>44,513</u>

21 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

The Group has positions in the following types of derivatives:

	<u>2018</u>			<u>2017</u>		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Total</i> <i>notional</i> <i>amount</i> <i>LL million</i>	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Total</i> <i>notional</i> <i>amount</i> <i>LL million</i>
Derivatives held-for-trading						
Currency options	-	-	-	9,980	9,980	40,040
Forward foreign exchange contracts	14,637	17,272	3,375,777	10,420	16,245	3,605,538
Equity swaps and options	3,146	3,146	1,196,013	1	1	2,260
Currency swaps	262	2,203	872,492	-	5,544	563,397
Interest rate swaps	-	-	36,180	-	-	2,186
	<u>18,045</u>	<u>22,621</u>	<u>5,480,462</u>	<u>20,401</u>	<u>31,770</u>	<u>4,213,421</u>
Hedge of net investment in foreign operations						
Forward foreign exchange contracts	707	-	186,105	-	2,617	194,939
	<u>18,752</u>	<u>22,621</u>	<u>5,666,567</u>	<u>20,401</u>	<u>34,387</u>	<u>4,408,360</u>

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

Derivative financial instruments held-for-trading purposes

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IFRS 9 hedge accounting criteria.

Derivative financial instruments held for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

Hedge of net investment in foreign operations

During 2018, the Group renewed its forward foreign exchange contracts designated to hedge its investment in its subsidiary in France. The notional amount of these contracts amounted to Euro 107,904 thousand (LL 186,105 million) as at 31 December 2018 (2017: LL 194,939 million). The forward foreign exchange contracts were revalued as of 31 December 2018 and resulted in unrealized gain of LL 707 million (2017: unrealized loss of LL 2,617 million). The contracts mature on 7 March 2019 at the latest.

No ineffectiveness from the fair value hedge was recognized in profit or loss during the year.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
<i>Lebanese sovereign</i>		
Treasury bills and bonds	52,752	48,983
<i>Private sector and other securities</i>		
Corporate debt instruments	8,993	9,594
Equity instruments	190,593	197,762
Funds	108,963	107,376
	<u>308,549</u>	<u>314,732</u>
	<u>361,301</u>	<u>363,715</u>

23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Commercial loans	6,627,538	6,873,260
Consumer loans	4,629,742	4,906,477
	<u>11,257,280</u>	<u>11,779,737</u>
Less: Allowance for expected credit losses/Impairment allowance	(480,460)	(443,762)
	<u>10,776,820</u>	<u>11,335,975</u>

The table for the movement in allowances for expected credit losses of loans and advances to customers at amortized cost under IFRS 9 is presented in the Credit Risk section (note 49).

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year ended 31 December 2017 is as follows:

	<i>2017</i>			
	<i>Commercial loans</i>	<i>Consumer loans</i>	<i>Unrealized interest</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	345,290	72,705	118,087	536,082
Add:				
Charge for the year (note 13)	17,097	37,419	-	54,516
Unrealized interest for the year	-	-	42,551	42,551
Transfer from HSBC Bank Middle East Limited– Lebanon	11,079	4,292	23,543	38,914
Transfer from unrealized interest	-	1,144	-	1,144
Transfer from commercial individual impairment allowances	-	-	155	155
Foreign exchange difference	2,398	353	-	2,751
	<u>375,864</u>	<u>115,913</u>	<u>184,336</u>	<u>676,113</u>
Less:				
Provisions written-off	1,597	2,969	867	5,433
Write-back of provisions (note 13)	6,999	13,371	7,563	27,933
Transfer to off financial position	130,344	22,939	41,485	194,768
Transfer to provisions for risks and charges	2,782	11	-	2,793
Transfer to unrealized interest	155	-	-	155
Transfer to impairment allowances on consumer loans	-	-	1,144	1,144
Foreign exchange difference	1	-	124	125
	<u>141,878</u>	<u>39,290</u>	<u>51,183</u>	<u>232,351</u>
Balance at 31 December	<u>233,986</u>	<u>76,623</u>	<u>133,153</u>	<u>443,762</u>

23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

	2017			Total LL million
	Commercial loans LL million	Consumer loans LL million	Unrealized interest LL million	
Individual impairment	160,780	46,942	-	207,722
Collective impairment	73,206	29,681	-	102,887
Unrealized interest	-	-	133,153	133,153
	<u>233,986</u>	<u>76,623</u>	<u>133,153</u>	<u>443,762</u>

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 747,312 million as of 31 December 2018 (2017: LL 648,311 million).

The fair value of collateral that the Group holds relating to loans and advances to commercial customers individually determined to be impaired amounts to LL 116,543 million as of 31 December 2018 (LL 99,084 million as of 31 December 2017). The collateral consists of cash, securities, letters of guarantee and properties.

24 FINANCIAL ASSETS AT AMORTIZED COST

	2018 LL million	2017 LL million
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills and bonds (a)	3,466,158	3,183,149
Certificates of deposits	1,884,435	1,862,668
	<u>5,350,593</u>	<u>5,045,817</u>
Other sovereign and central banks		
Treasury bills and bonds	1,221,660	1,743,170
Certificates of deposits	-	204,076
	<u>1,221,660</u>	<u>1,947,246</u>
Private sector and other securities		
Corporate debt instruments	855,777	864,925
Certificates of deposits	4,319	4,024
	<u>860,096</u>	<u>868,949</u>
Less: Allowance for expected credit losses/Impairment allowance	<u>(21,888)</u>	<u>(5,637)</u>
	<u>7,410,461</u>	<u>7,856,375</u>

(a) As at 31 December 2018, Lebanese treasury bills amounting to LL 2,321,271 million with maturities ranging between 2022 and 2033 were pledged against term borrowing granted from the Central Bank of Lebanon with the same value (2017: LL 1,392,525 million maturing between 2022 and 2027) (note 31).

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25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Equity securities	14,605	2,059
Funds	-	2,165
	<u>14,605</u>	<u>4,224</u>

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

	<i>2018</i>			<i>2017</i>		
	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>
Equity securities	14,605	(1,051)	871	2,059	(410)	340
Funds	-	-	-	2,165	1,024	-
	<u>14,605</u>	<u>(1,051)</u>	<u>871</u>	<u>4,224</u>	<u>614</u>	<u>340</u>

Profit from sale of financial assets at fair value through other comprehensive income amounted to LL 46 million for the year ended 31 December 2018 (2017: nil).

26 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings</i> <i>LL million</i>	<i>Vehicles</i> <i>LL million</i>	<i>Furniture, office installations and computer equipment</i> <i>LL million</i>	<i>Advances on acquisition of fixed assets and construction in progress</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost					
At 1 January 2018	630,467	7,728	340,020	116,016	1,094,231
Additions	6,776	2,049	12,378	31,633	52,836
Disposals	(4,913)	(1,567)	(1,783)	-	(8,263)
Transfers	16,868	-	3,563	(23,640)	(3,209)
Write-off	-	-	(571)	-	(571)
Translation difference	(3,247)	(27)	(772)	(41)	(4,087)
At 31 December 2018	<u>645,951</u>	<u>8,183</u>	<u>352,835</u>	<u>123,968</u>	<u>1,130,937</u>
Depreciation					
At 1 January 2018	81,942	4,597	209,817	-	296,356
Charge for the year	11,697	1,516	24,457	-	37,670
Relating to disposals	-	(1,551)	(1,201)	-	(2,752)
Transfers	-	-	(2,668)	-	(2,668)
Write-off	-	-	(539)	-	(539)
Translation difference	(450)	(16)	(489)	-	(955)
At 31 December 2018	<u>93,189</u>	<u>4,546</u>	<u>229,377</u>	<u>-</u>	<u>327,112</u>
Net carrying value					
At 31 December 2018	<u>552,762</u>	<u>3,637</u>	<u>123,458</u>	<u>123,968</u>	<u>803,825</u>

26 PROPERTY AND EQUIPMENT (continued)

	<i>Freehold land and buildings LL million</i>	<i>Vehicles LL million</i>	<i>Furniture, office installations and computer equipment LL million</i>	<i>Advances on acquisition of fixed assets and construction in progress LL million</i>	<i>Total LL million</i>
Cost					
At 1 January 2017	520,365	6,405	308,547	131,519	966,836
Additions	23,743	1,198	19,632	31,126	75,699
Disposals	(1,216)	(648)	(4,645)	-	(6,509)
Transfers	33,835	706	11,695	(46,737)	(501)
Transferred from HSBC Bank Middle East Limited-Lebanon	45,626	-	2,481	-	48,107
Translation difference	8,114	67	2,310	108	10,599
At 31 December 2017	630,467	7,728	340,020	116,016	1,094,231
Depreciation					
At 1 January 2017	71,097	3,094	189,205	-	263,396
Charge for the year	10,155	1,474	23,739	-	35,368
Relating to disposals	-	(490)	(3,903)	-	(4,393)
Transfers	-	465	(591)	-	(126)
Translation difference	690	54	1,367	-	2,111
At 31 December 2017	81,942	4,597	209,817	-	296,356
Net carrying value					
At 31 December 2017	548,525	3,131	130,203	116,016	797,875

Certain freehold land and buildings purchased prior to 1 January 1999 were restated in previous years for the changes in the general purchasing power of the Lebanese Lira giving rise to a net surplus amounting to LL 14,727 million, which was credited to equity under "revaluation reserve of real estate".

27 INTANGIBLE ASSETS

	<i>Computer software LL million</i>	<i>Key money LL million</i>	<i>Advances on acquisition of intangible assets LL million</i>	<i>Total LL million</i>
Cost				
At 1 January 2018	23,331	3,617	-	26,948
Additions	4,186	-	14	4,200
Disposals	(18)	-	-	(18)
Transfers	3,140	-	-	3,140
Translation difference	(156)	(85)	-	(241)
At 31 December 2018	30,483	3,532	14	34,029
Amortization				
At 1 January 2018	21,211	3,564	-	24,775
Charge for the year	1,837	53	-	1,890
Relating to disposals	(18)	-	-	(18)
Transfers	2,629	-	-	2,629
Translation difference	(153)	(85)	-	(238)
At 31 December 2018	25,506	3,532	-	29,038
Net carrying value				
At 31 December 2018	4,977	-	14	4,991

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27 INTANGIBLE ASSETS (continued)

	<i>Computer software</i> LL million	<i>Key money</i> LL million	<i>Advances on acquisition of intangible assets</i> LL million	<i>Total</i> LL million
Cost				
At 1 January 2017	21,856	3,400	24	25,280
Additions	1,415	-	11	1,426
Disposals	(552)	-	-	(552)
Transfers	256	-	(35)	221
Translation difference	356	217	-	573
At 31 December 2017	<u>23,331</u>	<u>3,617</u>	<u>-</u>	<u>26,948</u>
Amortization				
At 1 January 2017	19,503	3,295	-	22,798
Charge for the year	1,950	53	-	2,003
Relating to disposals	(552)	-	-	(552)
Translation difference	310	216	-	526
At 31 December 2017	<u>21,211</u>	<u>3,564</u>	<u>-</u>	<u>24,775</u>
Net carrying value				
At 31 December 2017	<u>2,120</u>	<u>53</u>	<u>-</u>	<u>2,173</u>

28 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	<i>2018</i> LL million	<i>2017</i> LL million
Cost		
At 1 January	65,315	55,019
Additions	1,813	14,577
Disposals	(2,182)	(4,453)
Transfers	-	(7)
Translation difference	(12)	179
At 31 December	<u>64,934</u>	<u>65,315</u>
Impairment		
At 1 January	(4,635)	(5,263)
Charge for the year (note 15)	(2,324)	(110)
Write-back (note 12)	352	749
Translation difference	(51)	(11)
At 31 December	<u>(6,658)</u>	<u>(4,635)</u>
Net carrying value		
At 31 December	<u>58,276</u>	<u>60,680</u>

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29 OTHER ASSETS

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Reinsurer's share of technical reserves	30,338	61,375
Prepaid expenses	27,205	28,492
Sundry debtors (i)	19,354	16,101
Insurer deferred acquisition cost	17,732	18,975
Compulsory deposits (ii)	6,177	6,175
Other revenues to be collected	5,815	3,972
Customers' transactions between head office and branches	2,935	4,035
Precious metals and stamps	1,166	1,046
Payments on behalf of HSBC Bank Middle East Limited- Lebanon (*)	-	8,461
Other assets	68,826	50,865
	<u>179,548</u>	<u>199,497</u>

(*) The above balance represents receivables from HSBC Bank Middle East Limited- Lebanon for payments made by BLOM Bank Lebanon on behalf of HSBC Bank Middle East Limited- Lebanon in accordance with the Protocol Terms of the Sale and Purchase Agreement. This balance was collected on 23 January 2018.

(i) Sundry debtors

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Sundry debtors	19,914	17,511
Less: Provision against sundry debtors	(560)	(1,410)
	<u>19,354</u>	<u>16,101</u>

The movement of provision against sundry debtors is summarized as follows:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Balance at 1 January	1,410	1,410
Recoveries (note 13)	(850)	-
Balance at 31 December	<u>560</u>	<u>1,410</u>

(ii) Compulsory deposits represent amounts deposited with local authorities based on local regulations of the countries in which the subsidiaries are located, and are detailed as follows:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
BLOM Invest Bank SAL	1,500	1,500
BLOM Development Bank SAL	4,500	4,500
BLOM Bank France SA	124	121
BLOM Securities	53	54
	<u>6,177</u>	<u>6,175</u>

30 BUSINESS COMBINATIONS AND GOODWILL

(a) Goodwill

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Cost:		
At 1 January	111,131	21,365
Goodwill arising on acquisition (b)	-	89,720
Translation difference	(12)	46
At 31 December	111,119	111,131
Impairment:		
At 1 January	(109,135)	(19,415)
Impairment for the year	-	(89,720)
At 31 December	(109,135)	(109,135)
Net book value:		
At 31 December	1,984	1,996

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganizations. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2018 and 2017.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Asset management and private banking - Switzerland	1,214	1,226
Asset management and private banking - Egypt	770	770
	1,984	1,996

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

Goodwill Impairment Test

The Group recognized impairment losses as follows during the year ended 31 December:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Commercial Banking (HSBC) – Lebanon	-	89,720
	-	89,720

Commercial Banking (HSBC) – Lebanon

The Commercial Banking CGU in Lebanon is a separate business that generates largely independent cash flows from operations in the Lebanese market. The acquisitions resulted in operational synergies at the level of the acquired head office and branches. The business is reported mainly under the Commercial and Retail Banking business segment and the Lebanon geographical segment. The recoverable amount of this CGU of LL 135,240 million was determined based on a value in use calculation using updated cash flow projections from financial budgets covering a five-year period, with a terminal growth rate of 2.7%. The projected cash flows were discounted at a pre-tax rate of 18.5%. As a result, an impairment loss on goodwill amounting to LL 89,720 million was recognized for the year ended 31 December 2017.

30 BUSINESS COMBINATIONS AND GOODWILL (continued)

(a) Goodwill (continued)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions (continued)

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarized in the table below, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Commercial Banking (HSBC) – Lebanon (31 December 2017)

Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 4.12% (LL 5,576 million).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.63% (LL 2,205 million).
Growth rate	Growth rate is the percentage change of the compounded annualized rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 1.82% (LL 2,458 million).

(b) Business Combinations

Acquisition of HSBC Bank Middle East Limited – Lebanon Branch

On 17 June 2017, the Group acquired 100% of the assets and liabilities of HSBC Bank Middle East Limited – Lebanon Branch, for a total consideration of LL 219,562 million. HSBC Bank Middle East Limited – Lebanon Branch is engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The transaction was accounted for under the acquisition method. The consolidated financial statements include the results of HSBC Bank Middle East Limited – Lebanon Branch from the acquisition date. If the acquisition had taken place at the beginning of the year 2017, net income for the year ended 31 December 2017 would have increased by LL 5,900 million.

The fair value of the identifiable assets and liabilities acquired arising as at the date of acquisition was:

	<i>Fair value recognized on acquisition LL million</i>	<i>Carrying value LL million</i>
Assets		
Cash and balances with central banks	206,384	206,384
Due from banks and financial institutions	62,277	62,277
Financial assets at fair value through profit or loss	180	180
Net loans and advances to customers at amortized cost	698,877	698,877
Debtors by acceptances	66,890	66,890
Financial assets at amortized cost	196,345	196,345
Property and equipment	48,107	19,802
Other assets	17,913	17,913
	1,296,973	1,268,668

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30 BUSINESS COMBINATIONS AND GOODWILL (continued)

(b) Business Combinations

Acquisition of HSBC Bank Middle East Limited – Lebanon Branch (continued)

Liabilities		
Due to banks and financial institutions	188,693	188,693
Customers' deposits at amortized cost	891,774	891,774
Engagements by acceptances	66,890	66,890
Other liabilities	14,609	14,609
Provisions for risks and charges	5,165	5,165
	1,167,131	1,167,131
Total identifiable net assets	129,842	101,537

LL million

Acquisition percentage	100%
Fair value of net assets acquired	129,842
Cost of acquisition	219,562
Goodwill arising from acquisition	89,720

Cash outflow on acquisition of the subsidiary:

LL million

Cash paid	(219,562)
Cash acquired with the subsidiary	206,384
Net cash outflow	(13,178)

31 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS

	2018	2017
	LL million	LL million
Central Bank of Lebanon (a)	541,446	511,856
Central Bank of Lebanon (b)	6,519,181	1,707,573
Central Bank of Jordan	21,231	22,845
Accrued interest payable	34,364	12,671
	7,116,222	2,254,945
Central Bank of Egypt – repurchase agreements	25,826	7,263
	7,142,048	2,262,208

- (a) Following its issued Intermediate Circulars, the Central Bank of Lebanon offered the commercial banks facilities capped at LL 1,500 billion to be granted to customers and with a time limit ending on 15 October 2017. Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis with the first payment due on 2 January 2018.
- (b) Term borrowings from the Central Bank of Lebanon amounting to LL 6,519,181 million as at 31 December 2018 have maturities ranging between the years 2022 and 2033. Time deposits placed with the Central Bank of Lebanon amounting to LL 4,197,910 million maturing in 2028 were blocked against these term borrowings (note 18) and Lebanese treasury bills held at amortized cost amounting to LL 2,321,271 million (note 24) with maturities ranging between 2022 and 2033 were pledged in favor of the Central Bank of Lebanon. (2017: Lebanese treasury bills held at amortized cost amounting to LL 1,392,525 million (note 24) and having maturities ranging 2022 and 2027 were pledged in favor of the Central Bank of Lebanon).

BLOM Bank SAL

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32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Current accounts	292,986	276,549
Time deposits	379,322	248,524
Loans	193,753	53,612
	<u>866,061</u>	<u>578,685</u>

33 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Customers' deposits at amortized cost:		
Sight deposits	5,128,575	5,631,782
Time deposits	21,549,056	19,512,803
Saving accounts	12,255,627	12,959,282
Credit accounts and deposits against debit accounts	1,417,410	1,806,653
Margins on letters of credit	62,736	66,499
	<u>40,413,404</u>	<u>39,977,019</u>

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 24,518 million as of 31 December 2018 (2017: LL 24,223 million).

34 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Certificates of deposits issued by the Group	452,250	-
Issuance cost of certificates of deposits	(1,259)	-
Accrued interest	5,297	-
	<u>456,288</u>	<u>-</u>

On 7 March 2018, the Group has obtained the approval of the Capital Markets Authority for the issuance of certificates of deposits at par up to a ceiling of US\$ 300 million (equivalent to LL 452,250 million) subject to a fixed interest rate of 7.5% per annum and a maturity of 4 May 2023.

35 OTHER LIABILITIES

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Unearned premiums and liability related to insurance contracts	324,333	323,981
Current tax liabilities	181,716	146,174
Sundry creditors	102,933	94,230
Other taxes due	77,904	61,587
Accrued expenses	75,157	68,867
Regularization accounts	55,696	98,835
Dividends payable	435	1,543
Other liabilities	31,621	22,181
	<u>849,795</u>	<u>817,398</u>

36 PROVISIONS FOR RISKS AND CHARGES

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Deferred revenues (i)	160,945	337,177
Provision for risks and charges (ii)	57,210	49,646
Retirement benefits obligation (iii)	74,426	69,882
Provision for outstanding claims and IBNR reserves related to subsidiary- insurance companies	43,338	52,176
Provision on commitment by signature (iv)	2,231	3,956
Provisions for ECL on financial guarantees and commitments	2,131	-
Other provisions	11,780	10,587
	<u>352,061</u>	<u>523,424</u>

- (i) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

Besides, during 2017, the Group released an amount of LL 89,720 million (net of tax) from “Deferred revenues” whereby LL 105,552 million gross of tax were recognized in the consolidated income statement for the year ended 31 December 2017 under “Other operating income” (note 12) and LL 15,832 million under “Income tax expense”. As at 31 December 2017, allowance for expected credit losses include provisions constituted to comply with regulatory requirements amounting to LL 337,177 million in excess of the provisioning requirements.

During 2018, the Group used part of the “Deferred revenues” to provide for LL 126,298 million; resulting from applying IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018. In addition, during 2018 the Group used an amount of LL 49,934 million from the “Deferred revenues” for the Expected Credit Loss allowance when calculating the ECL as of 31 December 2018. The remaining balance of this excess amounted to LL 160,945 million.

The movement in the deferred revenues (excess provisions) is as follows:

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	337,177	426,897
Impact of IFRS 9 adoption (note 2)	(126,298)	-
Net transfer to expected credit losses on financial assets	(49,934)	-
Write back during the year	-	(89,720)
Balance at 31 December	<u>160,945</u>	<u>337,177</u>

36 PROVISIONS FOR RISKS AND CHARGES (continued)

(ii) Provision for risks and charges

	2018 <i>LL million</i>	2017 <i>LL million</i>
Balance at 1 January	49,646	54,106
Impact of IFRS 9 adoption (note 2)	(1,543)	-
Charge for the year (note 15)	10,785	859
Provisions paid during the year	(6)	(128)
Provisions written-back during the year (note 12)	(16,971)	(4,312)
Net transfer to expected credit losses on financial assets	(9,270)	-
Transfer from commitment by signature (iv)	1,721	-
Transfer from provisions on stage 1 commercial loans (note 49-1.1)	22,990	-
Provisions written-off during the year	(94)	(89)
Exchange difference	(48)	(790)
Balance at 31 December	<u>57,210</u>	<u>49,646</u>

(iii) Retirement benefits obligation

	2018 <i>LL million</i>	2017 <i>LL million</i>
Balance at 1 January	69,882	65,919
Charge for the year (note 14)	10,507	4,923
Transfer from HSBC Bank Middle East Limited – Lebanon Branch	-	3,400
Benefits paid	(5,937)	(4,532)
Exchange difference	(26)	172
Balance at 31 December	<u>74,426</u>	<u>69,882</u>

(iv) Provisions on commitment by signature

	2018 <i>LL million</i>	2017 <i>LL million</i>
Balance at 1 January	3,956	3,883
Charge for the year (note 13)	-	78
Transfer to provision for risks and charges (ii)	(1,721)	-
Exchange difference	(4)	(5)
Balance at 31 December	<u>2,231</u>	<u>3,956</u>

37 SHARE CAPITAL AND PREMIUM

	2018		2017	
	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
Common shares – Authorized, issued and fully paid				
215,000,000 shares at LL 1,500 per share as of 31 December 2018 (31 December 2017: the same)	322,500	374,059	322,500	374,059

All of the Bank's common shares are listed in the Beirut Stock Exchange starting 20 June 2008. Out of the total common shares, 73,896,010 shares are listed as Global Depository Receipts (GDRs) in the Luxembourg Stock Exchange (2017: the same).

38 NON-DISTRIBUTABLE RESERVES

	<i>Non-distributable general reserves</i> LL million	<i>Reserve for general banking risks</i> LL million	<i>Legal reserve</i> LL million	<i>Reserve for increase of share capital</i> LL million	<i>Other reserves</i> LL million	<i>Total</i> LL million
At 1 January 2017	-	441,922	538,416	143,497	68,817	1,192,652
Capital increase	-	-	-	(64,500)	-	(64,500)
Appropriation of 2016 profits	-	34,957	64,316	75,190	4,992	179,455
Transfer from retained earnings to non-distributable reserves	-	-	-	-	3,367	3,367
Change in non-controlling interests	-	(1)	(3)	(2)	-	(6)
Net gain on sale of treasury shares	-	-	-	3,408	-	3,408
Other adjustments	-	-	-	(1,598)	-	(1,598)
At 1 January 2018	-	476,878	602,729	155,995	77,176	1,312,778
Impact of IFRS 9 at 1 January	(732)	-	-	-	-	(732)
Restated balance at 1 January 2018	(732)	476,878	602,729	155,995	77,176	1,312,046
Appropriation of 2017 profits	536	35,740	67,149	6,745	-	110,170
Transfer to non-distributable general reserves	577,998	(500,822)	-	-	(77,176)	-
Transfer from (to) retained earnings	128,748	-	2,060	(19,415)	-	111,393
Net gain on sale of treasury shares	-	-	-	68	-	68
At 31 December 2018	706,550	11,796	671,938	143,393	-	1,533,677

Non-distributable general reserves

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to “Non-distributable general reserves”, the balance of “Reserve for general banking risks” and “Reserve for retail loans” previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group’s equity and is not available for distribution.

Legal reserve

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2018, the Group appropriated LL 67,149 million from 2017 profits to the legal reserve in accordance with the General Assembly of Shareholders’ resolution (2017: LL 64,316 million).

Reserve for increase of share capital

During 2018, the Group appropriated LL 6,745 million from 2017 profits to the reserve for increase of share capital in accordance with the General Assembly of Shareholders’ resolution (2017: LL 75,190 million).

Details of the reserve for increase of share capital are as follows:

	2018 LL million	2017 LL million
Recoveries of provisions for doubtful debts and reserves for assets taken in recovery of debts	106,619	119,289
Gain on sale of treasury shares	36,003	35,935
Revaluation reserves for fixed assets sold	668	668
Transfer from other reserves	102	102
Other adjustments	1	1
	143,393	155,995

39 TREASURY SHARES

Movement of treasury shares recognized in the consolidated statement of financial position is as follows:

	<i>2018</i>	
	<i>No. of common shares</i>	<i>Amount LL million</i>
At 1 January	8,567,050	8,473
Purchase of treasury shares	326,751	5,766
Sale of treasury shares	(40,450)	(672)
At 31 December	8,853,351	13,567
	<i>2017</i>	
	<i>No. of common shares</i>	<i>Amount LL million</i>
At 1 January	9,220,651	16,941
Purchase of treasury shares	2,290,192	37,564
Sale of treasury shares	(2,943,793)	(46,032)
At 31 December	8,567,050	8,473

The treasury shares represent 1,078,185 Global Depository Receipts (GDR) and 7,775,166 ordinary shares owned by the Group as at 31 December 2018 (2017: 774,034 Global Depository Receipts (GDR) and 7,793,016 ordinary shares).

The Group realized a gain of LL 68 million from the sale of treasury shares during the year 2018 (2017: gain of LL 3,408 million). Gains and losses are reflected in the "Non-distributable reserves".

40 RETAINED EARNINGS

As of 31 December, retained earnings include the following non-distributable amounts:

	<i>2018 LL million</i>	<i>2017 LL million</i>
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank (*)	13,956	13,008
Unrealized gain on financial assets at fair value through profit or loss	69,971	79,669
Earnings distributable subject to Central Bank of Egypt approval	10,118	13,120
	94,045	105,797

(*) This related to BLOM Bank France SA – Romania Branch as at 31 December 2017 (2016: the same).

41 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
At 1 January	614	550
Impact of IFRS 9 at 1 January (note 2)	(2,192)	-
Restated balance at 1 January 2018	<u>(1,578)</u>	550
Net changes in fair values during the year	621	64
Balance at 31 December	<u>(957)</u>	<u>614</u>

42 CASH AND CASH EQUIVALENTS

	<i>2018</i> <i>LL million</i>	<i>2017</i> <i>LL million</i>
Cash and balances with central banks	3,542,181	2,485,030
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	2,114,378	2,857,593
	<u>5,656,559</u>	<u>5,342,623</u>
Less:		
Due to central banks	(42,633)	(24,435)
Repurchase agreements	(21,076)	(7,263)
Due to banks and financial institutions (whose original maturities are less than 3 months)	(633,269)	(460,237)
	<u>4,959,581</u>	<u>4,850,688</u>

43 DIVIDENDS DECLARED AND PAID

According to the resolution of the General Assembly meeting held on 11 April 2018 the following dividends were declared and paid, from the 2017 profits.

	<i>2018</i>		
	<i>Number of shares</i>	<i>Dividends per share in LL</i>	<i>Total LL million</i>
Dividends on common shares	214,316,591	1,700.00	<u>364,338</u>

The dividends on common shares, declared on 11 April 2018, were paid net of the treasury shares as of that date.

43 DIVIDENDS DECLARED AND PAID (continued)

According to the resolution of the General Assembly meeting held on 7 April 2017 the following dividends were declared and paid, from the 2016 profits.

	2017		
	<i>Number of shares</i>	<i>Dividends per share in LL</i>	<i>Total LL million</i>
Dividends on preferred shares – 2011 issue	20,000,000	1,055.25	21,105
Dividends on common shares	214,771,805	1,500.00	322,158
			343,263

The dividends on common shares, declared on 7 April 2017, were paid net of the treasury shares as of that date.

44 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's Statement of Financial Position are as follows as of 31 December:

	<i>Outstanding balance as at 31 December 2018</i>			
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Expected credit loss</i>	<i>Total</i>
	<i>Outstanding balance</i>	<i>Outstanding balance</i>	<i>Outstanding balance</i>	<i>Outstanding balance</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Deposits	74,464	89,754	-	164,218
Net loans and advances	13,744	10,720	(21)	24,443
Guarantees given	3,914	1,814	-	5,728

	<i>Outstanding balance as at 31 December 2017</i>			
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Expected credit loss</i>	<i>Total</i>
	<i>Outstanding balance</i>	<i>Outstanding balance</i>	<i>Outstanding balance</i>	<i>Outstanding balance</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Deposits	113,964	71,607	-	185,571
Net loans and advances	12,882	15,263	-	28,145
Guarantees given	3,781	2,155	-	5,936

44 RELATED PARTY TRANSACTIONS (continued)

Related party transactions included in the Group's Income Statement are as follows for the year ended 31 December:

	2018		
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Interest paid on deposits	2,520	5,771	8,291
Interest received from net loans and advances	458	762	1,220
Rent expense	-	296	296
	2017		
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Interest paid on deposits	2,285	5,720	8,005
Interest received from net loans and advances	437	883	1,320
Rent expense	-	615	615

Key management personnel

Total remuneration awarded to key management personnel represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest pay round decisions. Figures are provided for the period that individuals met the definition of key management personnel.

	2018	2017
	<i>LL million</i>	<i>LL million</i>
Short-term benefits	61,712	56,512
Post-employment benefits	2,928	646

Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other benefits.

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit – related commitments and contingent liabilities

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognized on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2018		
	<i>Banks</i>	<i>Customers</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Guarantees issued	50,217	1,085,948	1,136,165
Commitments			
Documentary credits	240,698	-	240,698
Loan commitments	-	1,790,521	1,790,521
<i>Of which revocable</i>	-	1,420,072	1,420,072
<i>Of which irrevocable</i>	-	370,449	370,449
Securities pledged with the Central Bank of Lebanon	2,342,765	-	2,342,765
Other commitments	1,567	52,222	53,789
	<u>2,635,247</u>	<u>2,928,691</u>	<u>5,563,938</u>

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45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

	2017		
	Banks LL million	Customers LL million	Total LL million
Guarantees issued	33,766	1,030,815	1,064,581
Commitments			
Documentary credits	243,727	-	243,727
Loan commitments	-	2,149,378	2,149,378
<i>Of which revocable</i>	-	1,706,366	1,706,366
<i>Of which irrevocable</i>	-	443,012	443,012
Securities pledged with the Central Bank of Lebanon	1,407,524	-	1,407,524
Other commitments	1,745	63,531	65,276
	<u>1,686,762</u>	<u>3,243,724</u>	<u>4,930,486</u>

Guarantees issued

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

Documentary credits

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be cancelled at any time (without giving a reason) subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Group.

Capital expenditures and lease payments that were not provided for as of the consolidated statement of financial position date are as follows:

	2018 LL million	2017 LL million
Capital commitments		
Property and equipment	<u>14,950</u>	<u>15,124</u>
Operating lease commitments – Group as lessee		
Future minimum lease payments under operating leases:		
During one year	4,369	4,699
More than 1 year and less than five years	11,776	14,149
More than five years	8,124	12,474
Total operating lease commitments at the consolidated statement of financial position date	<u>24,269</u>	<u>31,322</u>

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Other commitments and contingencies

The books of the Head Office and Lebanese branches of the Bank were reviewed by the tax authorities for the years 2012 to 2014 (inclusive). The tax authorities issued a final report on 27 February 2018 resulting in additional taxes of LL 1,486 million which were settled by the Bank during the year 2018.

In addition, the Bank's books in Lebanon for the years 2015 to 2017 (inclusive) are currently under the review of the tax authorities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the year 2018. Management believes that the ultimate outcome of any review by the tax authorities on the Bank's books for this period will not have a material impact on the financial statements.

The books of the Head Office and Lebanese branches of the Bank were reviewed by the National Social Security Fund (NSSF) and were subject to a discharge for the period from 1 March 1998 until 31 October 2014. The Bank's books in Lebanon remain subject to the review by the NSSF for the period from 1 November 2014 to 31 December 2018. Management believes that the ultimate outcome of any review by the NSSF on the Bank's books for this period will not have a material impact on the financial statements.

In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate.

Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

46 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Assets held in custody and under administration	10,655,081	11,820,643

The Group provides safekeeping and servicing activities on behalf of clients, in addition to various support functions including the valuation of portfolios of securities and other financial assets, which complements the custody business.

47 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market, that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

47 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value:

	2018			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Financial assets:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	14,637	-	14,637
Equity swaps and options	-	3,146	-	3,146
Currency swaps	-	262	-	262
Forward foreign exchange contracts used for hedging purposes	-	707	-	707
Financial assets at fair value through profit or loss:				
Treasury Bills and bonds	51,882	870	-	52,752
Corporate debt instruments	7,298	1,695	-	8,993
Equity instruments	172,031	18,562	-	190,593
Funds	-	-	108,963	108,963
Financial assets at fair value through other comprehensive income:				
Equity instruments	-	12,981	1,624	14,605
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	17,272	-	17,272
Equity swaps and options	-	3,146	-	3,146
Currency swaps	-	2,203	-	2,203
2017				
<i>Valuation techniques</i>				
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Financial assets:				
Derivative financial instruments:				
Currency swaps and options	-	9,980	-	9,980
Forward foreign exchange contracts	-	10,420	-	10,420
Equity swaps and options	-	1	-	1
Financial assets at fair value through profit or loss:				
Treasury Bills and bonds	41,270	7,713	-	48,983
Corporate debt instruments	7,624	1,970	-	9,594
Equity instruments	181,102	16,660	-	197,762
Funds	-	-	107,376	107,376
Financial assets at fair value through other comprehensive income:				
Equity instruments	-	2,059	-	2,059
Funds	-	-	2,165	2,165
Financial liabilities:				
Derivative financial instruments:				
Currency swaps and options	-	15,524	-	15,524
Forward foreign exchange contracts	-	16,245	-	16,245
Equity swaps and options	-	1	-	1
Forward foreign exchange contracts used for hedging purposes	-	2,617	-	2,617

There were no transfers between levels during 2018 (2017: the same).

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)

47 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2) (Continued)**Derivatives**

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

Government bonds, certificates of deposit and other debt securities

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities and credit spreads.

Comparison of carrying and fair values for financial assets and liabilities not held at fair value:

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

The fair value of financial instruments that are carried at amortized cost is as follows:

	2018		2017	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
Financial assets				
Cash and balances with central banks	33,135,407	31,712,920	24,630,491	25,848,354
Due from banks and financial institutions	2,366,769	2,366,539	3,563,253	3,562,815
Loans to banks and financial institutions	37,864	36,824	44,513	45,263
Net loans and advances to customers at amortized cost	10,776,820	10,761,589	11,335,975	11,367,681
Net loans and advances to related parties at amortized cost	24,443	24,563	28,145	28,215
Debtors by acceptances	191,492	191,492	150,791	150,791
Financial assets at amortized cost	7,410,461	7,000,162	7,856,375	7,776,915
<i>Treasury bills and bonds</i>	4,677,182	4,594,969	4,920,682	4,882,512
<i>Certificates of deposits— central banks</i>	1,875,763	1,555,946	2,066,744	2,001,965
<i>Corporate debt instruments</i>	853,283	845,014	864,925	888,414
<i>Certificates of deposits— private sector</i>	4,233	4,233	4,024	4,024
Financial liabilities				
Due to central banks	7,116,222	7,116,178	2,254,945	2,254,945
Repurchase agreements	25,826	25,826	7,263	7,263
Due to banks and financial institutions	866,061	866,085	578,685	578,682
Customers' deposits at amortized cost	40,413,404	40,518,296	39,977,019	40,157,487
Deposits from related parties at amortized cost	164,218	164,525	185,571	185,710
Debt issued and other borrowed funds	456,288	456,288	-	-
Engagements by acceptances	192,751	192,751	150,791	150,791

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

47 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3) (continued)

Deposits with banks and loans and advances to banks

For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

Government bonds, certificates of deposit and other debt securities

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest and credit spreads.

Loans and advances to customers

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during the year with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities.

	2018			Total LL million
	Valuation techniques			
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
Assets for which fair values are disclosed:				
Cash and balances with central banks	283,800	31,429,120	-	31,712,920
Due from banks and financial institutions	-	2,366,539	-	2,366,539
Loans to banks and financial institutions	-	36,824	-	36,824
Net loans and advances to customers at amortized cost	-	-	10,761,589	10,761,589
Net loans and advances to related parties at amortized cost	-	-	24,563	24,563
Debtors by acceptances	-	-	191,492	191,492
Financial assets at amortized cost:	1,714,788	5,285,374	-	7,000,162
<i>Treasury bills and bonds</i>	903,971	3,690,998	-	4,594,969
<i>Certificates of deposit - central banks</i>	-	1,555,946	-	1,555,946
<i>Corporate debt securities</i>	810,817	34,197	-	845,014
<i>Certificates of deposit - private sector</i>	-	4,233	-	4,233
Liabilities for which fair values are disclosed:				
Due to central banks	-	7,116,178	-	7,116,178
Repurchase agreements	-	25,826	-	25,826
Due to banks and financial institutions	-	866,085	-	866,085
Customers' deposits at amortized cost	-	40,518,296	-	40,518,296
Deposits from related parties at amortized cost	-	164,525	-	164,525
Debt issued and other borrowed funds	-	456,288	-	456,288
Engagements by acceptances	-	-	192,751	192,751

47 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3) (continued)

	2017			Total LL million
	Valuation techniques			
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
Assets for which fair values are disclosed:				
Cash and balances with central banks	266,712	25,581,642	-	25,848,354
Due from banks and financial institutions	-	3,562,815	-	3,562,815
Loans to banks and financial institutions	-	45,263	-	45,263
Net loans and advances to customers at amortized cost	-	-	11,367,681	11,367,681
Net loans and advances to related parties at amortized cost	-	-	28,215	28,215
Debtors by acceptances	-	-	150,791	150,791
Financial assets at amortized cost:	1,376,335	6,400,580	-	7,776,915
<i>Treasury bills and bonds</i>	520,795	4,361,717	-	4,882,512
<i>Certificates of deposit - central banks</i>	-	2,001,965	-	2,001,965
<i>Corporate debt securities</i>	855,540	32,874	-	888,414
<i>Certificates of deposit - private sector</i>	-	4,024	-	4,024
Liabilities for which fair values are disclosed:				
Due to central banks	-	2,254,945	-	2,254,945
Repurchase agreements	-	7,263	-	7,263
Due to banks and financial institutions	-	578,682	-	578,682
Customers' deposits at amortized cost	-	40,157,487	-	40,157,487
Deposits from related parties at amortized cost	-	185,710	-	185,710
Engagements by acceptances	-	-	150,791	150,791

48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Group's assets and liabilities as at 31 December is as follows:

	2018		Total LL million
	Less than one year LL million	More than one year LL million	
ASSETS			
Cash and balances with central banks	4,241,406	28,894,001	33,135,407
Due from banks and financial institutions	2,333,141	33,628	2,366,769
Loans to banks and financial institutions	16,751	21,113	37,864
Derivative financial instruments	18,752	-	18,752
Financial assets at fair value through profit or loss	1,264	360,037	361,301
Net loans and advances to customers at amortized cost	6,988,193	3,788,627	10,776,820
Net loans and advances to related parties at amortized cost	16,604	7,839	24,443
Debtors by acceptances	191,492	-	191,492
Financial assets at amortized cost	740,247	6,670,214	7,410,461
Financial assets at fair value through other comprehensive income	-	14,605	14,605
Property and equipment	-	803,825	803,825
Intangible assets	-	4,991	4,991
Assets obtained in settlement of debt	-	58,276	58,276
Other assets	164,011	15,537	179,548
Goodwill	-	1,984	1,984
TOTAL ASSETS	14,711,861	40,674,677	55,386,538
LIABILITIES			
Due to central banks	105,851	7,010,371	7,116,222
Repurchase agreements	25,826	-	25,826
Due to banks and financial institutions	833,629	32,432	866,061
Derivative financial instruments	22,621	-	22,621
Customers' deposits at amortized cost	40,095,663	317,741	40,413,404
Deposits from related parties at amortized cost	164,218	-	164,218
Debt issued and other borrowed funds	-	456,288	456,288
Engagements by acceptances	192,751	-	192,751
Other liabilities	746,475	103,320	849,795
Provisions for risks and charges	56,102	295,959	352,061
TOTAL LIABILITIES	42,243,136	8,216,111	50,459,247
NET	(27,531,275)	32,458,566	4,927,291

48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2017		Total LL million
	Less than one year LL million	More than one year LL million	
ASSETS			
Cash and balances with central banks	3,494,014	21,136,477	24,630,491
Due from banks and financial institutions	3,467,623	95,630	3,563,253
Loans to banks and financial institutions	25,884	18,629	44,513
Derivative financial instruments	20,401	-	20,401
Financial assets at fair value through profit or loss	1,392	362,323	363,715
Net loans and advances to customers at amortized cost	8,809,194	2,526,781	11,335,975
Net loans and advances to related parties at amortized cost	17,712	10,433	28,145
Debtors by acceptances	150,791	-	150,791
Financial assets at amortized cost	1,948,584	5,907,791	7,856,375
Financial assets at fair value through other comprehensive income	-	4,224	4,224
Property and equipment	-	797,875	797,875
Intangible assets	-	2,173	2,173
Assets obtained in settlement of debt	-	60,680	60,680
Other assets	187,818	11,679	199,497
Goodwill	-	1,996	1,996
TOTAL ASSETS	18,123,413	30,936,691	49,060,104
LIABILITIES			
Due to central banks	395,166	1,859,779	2,254,945
Repurchase agreements	7,263	-	7,263
Due to banks and financial institutions	578,685	-	578,685
Derivative financial instruments	34,387	-	34,387
Customers' deposits at amortized cost	39,334,425	642,594	39,977,019
Deposits from related parties at amortized cost	177,475	8,096	185,571
Engagements by acceptances	150,791	-	150,791
Other liabilities	709,988	107,410	817,398
Provisions for risks and charges	58,767	464,657	523,424
TOTAL LIABILITIES	41,446,947	3,082,536	44,529,483
NET	(23,323,534)	27,854,155	4,530,621

49 RISK MANAGEMENT

The Group manages its business activities within risk management guidelines as set by the Group's "Risk Management Policy" approved by the Board of Directors. The Group recognizes the role of the Board of Directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the establishing of the Group's risk appetite and tolerance levels. The Board of Directors delegates through its Risk Management Committee the day-to-day responsibility for establishment and monitoring of risk management process across the Group's group to the Group Chief Risk Officer, who is directly appointed by the Board of Directors, in coordination with executive management at BLOM Bank SAL.

The Group is mainly exposed to credit risk, liquidity risk, market risk and operational risk.

The Board's Risk Management Committee has the mission to periodically (1) review and assess the risk management function of the Group, (2) review the adequacy of the Group's capital and its allocation within the Group, and (3) review risk limits and reports and make recommendations to the Board.

The Group Chief Risk Officer undertakes his responsibilities through the "Group Risk Management Division" in Beirut which also acts as Group Risk Management, overseeing and monitoring risk management activities throughout the Group. The Group Chief Risk Officer is responsible for establishing the function of Risk Management and its employees across the Group.

BLOM Bank's Risk Management aids executive management in monitoring, controlling and actively managing and mitigating the Group's overall risk. The Division mainly ensures that:

- Risk practices are fit for purpose and aligned with best practices as far as practicable.
- Risk policies and methodologies are consistent with the Group's risk appetite.
- Limits and risk across banking activities are monitored and managed throughout the Group.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Group's "Risk Management Policies". Any discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

49 RISK MANAGEMENT (continued)

In addition to the Group's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Group's foreign subsidiaries or branches to report to the Group Risk Management and executive senior management in a manner that ensures:

- Standardization of risk management functions and systems developed across the Group.
- Regional consistency of conducted business in line with the board's approved risk appetite.

The major objective of risk management is the implementation of sound risk management practices and the Basel frameworks as well as all related regulatory requirements within the Group. Pillar I capital adequacy calculations have been generated since December 2004. Bank Risk Management is progressively complying with the requirements of pillars II and III and is periodically updating and submitting the Internal Capital Adequacy Assessment Process (ICAAP) for BLOM Bank Group on an individual and consolidated basis. The Group has documented a Board approved Recovery Plan.

In the process of insuring adequate and sound disclosures the Group has documented a Board approved Disclosure policy.

49-1 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Group's Credit Risk Department, which is responsible for assisting the Group in establishing a credit risk management culture that promotes good analysis, judgment, flexibility and balance between risk and reward.

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions of credit files, including ratings and collateral quality. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective actions.

As part of its credit risk governance structure, the Group has established credit committees for the approval and renewal of credit facilities. Credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by his internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

49-1.1 Expected credit losses (ECL)

1. Governance and oversight of expected credit losses

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) reviewing key assumptions and estimations that are part of the ECL calculations; ii) approving the forward-looking economic scenarios; iii) approving staging classifications on a name-by-name basis for material exposures and iv) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

49 RISK MANAGEMENT (continued)**49-1 Credit risk (continued)****49-1.1 Expected credit losses (continued)****1. Governance and oversight of expected credit losses (continued)**

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information among others. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter. Each model is designated an owner who is responsible for:

- Monitoring the performance of the model, which includes comparing estimated ECL versus actual ECL; and
- Proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process.
- Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with financial data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by credit risk modelers using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Group's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are periodically updated depending on market conditions.

2. Definition of default and cure

The Group considers a financial instrument defaulted for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group.
- it is becoming probable that the borrower will restructure its debt due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

As a part of a qualitative assessment, the Group carefully considers whether the events listed above should result in classifying the exposures as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time and after obtaining the approval of the Credit Committee. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Group, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

3. The Group's internal rating and PD estimation process**Treasury, trading and interbank relationships**

For non-loan exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated.

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.1 Expected credit losses (continued)

3. The Group's internal rating and PD estimation process (continued)

Non-consumer loans

The Risk function, which is independent from business lines, is responsible for the development and maintenance of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 10 performing grades and 3 non-performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each country and loan portfolio. If historical default observations are not sufficient for a reliable PD estimation, then a low-default portfolio approach is adopted. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements.

These internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure;
- Account behavior, repayment history and other non-financial information such as management quality, company standing and industry risk;
- Any publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures; and
- Any other objectively supportable information on the obligor's willingness and capacity of repayment.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk function, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Consumer loans

Consumer lending comprises mainly of personal loans, credit cards, car loans and housing loans. These products are rated by an automated scorecard tool primarily driven by days past due.

The Group also relies on behavioral scorecards to predict the probability of default within a specific timeframe. This scorecard is built primarily on the repayment history of consumer borrowers, and include other predictive factors.

For the estimation of expected losses for consumer products, the Group uses currently the loss rate approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation is adjusted by a forward-looking component in line with the IFRS9 standard.

4. Exposure at default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

5. Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty and collateral type including recovery costs. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.1 Expected credit losses (continued)

6. *Significant increase in credit risk*

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group's assessment of significant increase in credit risk is being performed at least quarterly based on the following:

Non-Consumer loans

Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination with the risk of default at reporting date.

Consumer loans

Thresholds have been based on historical default rates and historical payment behavior to determine significant increase in credit risk.

Qualitative criteria

For non-Consumer loans, the Group also considers in its assessment of significant increase in credit risk, various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and arrange" supervisory classification. For Consumer loans, the Group considers specific events that might be indicative of a significant increase in credit risk such as the event of restructuring.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired at the reporting date.

7. *Expected Life*

With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period of 1 year, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

8. *Forward Looking Information*

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

On the PD level, the Group formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurring, then, a weighted average PD is generated and used for the calculation of the ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, organizations such as World Bank and the International Monetary Fund, and selected private-sector and academic forecasters. A team of specialists within the Group's Credit Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios of the PD.

The Group has identified the real GDP growth among others, as the key driver of ECL. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material.

49 RISK MANAGEMENT (continued)

49-2 Credit risk (continued)

49-1.1 Expected credit losses (continued)

9. Modified and forbore loans

From 1 January 2018

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in the *Summary of significant accounting policies* above.

When modification results in derecognition, a new loan is recognized and allocated to Stage I (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximize collection opportunities and minimize the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both consumer and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forbore during the period, with the related modification loss suffered by the Group.

	2018
	LL million
Amortized costs of financial assets modified during the period	155,164

There are no previously modified financial assets for which loss allowance has changed to 12mECL measurement as at 31 December 2018. There are no previously modified financial assets for which loss allowance had changed to 12mECL measurement and reverted to LTECL as at 31 December 2018.

Before 1 January 2018

Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

	2017
	LL million
Commercial loans	346,856

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49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.1 Expected credit losses (continued)

9. Financial Assets and ECLs by stage

The tables below presents an analysis of financial assets at amortized cost by gross exposure and impairment allowance by stage allocation as at 31 December 2018 and 1 January 2018. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure LL Million</i>
	<i>Stage 1 LL Million</i>	<i>Stage 2 LL Million</i>	<i>Stage 3 LL Million</i>	<i>Total LL Million</i>	<i>Stage 1 LL Million</i>	<i>Stage 2 LL Million</i>	<i>Stage 3 LL Million</i>	<i>Total LL Million</i>	
31 December 2018									
Cash and balances with central banks	33,215,934	-	-	33,215,934	(80,527)	-	-	(80,527)	33,135,407
Due from banks and financial institutions	2,369,453	-	1,232	2,370,685	(2,684)	-	(1,232)	(3,916)	2,366,769
Loans to banks and financial institutions	38,147	-	-	38,147	(283)	-	-	(283)	37,864
Loans and advances to customers at amortized cost	9,978,084	773,819	505,377	11,257,280	(23,691)	(68,088)	(388,681)	(480,460)	10,776,820
<i>Commercial loans</i>	5,519,067	722,153	386,318	6,627,538	(18,626)	(62,839)	(304,512)	(385,977)	6,241,561
<i>Consumer loans</i>	4,459,017	51,666	119,059	4,629,742	(5,065)	(5,249)	(84,169)	(94,483)	4,535,259
Loans and advances to related parties at amortized cost	24,463	-	-	24,463	(20)	-	-	(20)	24,443
Debtors by acceptances	191,856	895	-	192,751	(1,251)	(8)	-	(1,259)	191,492
Financial assets at amortized cost	7,426,916	-	5,433	7,432,349	(16,507)	-	(5,381)	(21,888)	7,410,461
Financial guarantees and other commitments	3,113,823	53,478	83	3,167,384	(2,014)	(86)	(31)	(2,131)	3,165,253
Total	56,358,676	828,192	512,125	57,698,993	(126,977)	(68,182)	(395,325)	(590,484)	57,108,509
	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure LL Million</i>
	<i>Stage 1 LL Million</i>	<i>Stage 2 LL Million</i>	<i>Stage 3 LL Million</i>	<i>Total LL Million</i>	<i>Stage 1 LL Million</i>	<i>Stage 2 LL Million</i>	<i>Stage 3 LL Million</i>	<i>Total LL Million</i>	
1 January 2018									
Cash and balances with central banks	24,630,491	-	-	24,630,491	(62,873)	-	-	(62,873)	24,567,618
Due from banks and financial institutions	3,563,253	-	1,752	3,565,005	(4,443)	-	(1,752)	(6,195)	3,558,810
Loans to banks and financial institutions	44,513	-	-	44,513	(281)	-	-	(281)	44,232
Loans and advances to customers at amortized cost	10,580,784	685,919	513,034	11,779,737	(35,879)	(77,626)	(377,157)	(490,662)	11,289,075
<i>Commercial loans</i>	5,835,154	640,739	397,367	6,873,260	(31,146)	(72,189)	(316,478)	(419,813)	6,453,447
<i>Consumer loans</i>	4,745,630	45,180	115,667	4,906,477	(4,733)	(5,437)	(60,679)	(70,849)	4,835,628
Loans and advances to related parties at amortized cost	28,145	-	-	28,145	(13)	-	-	(13)	28,132
Debtors by acceptances	150,791	-	-	150,791	(753)	-	-	(753)	150,038
Financial assets at amortized cost	7,856,321	-	5,691	7,862,012	(17,278)	-	(5,637)	(22,915)	7,839,097
Financial guarantees and other commitments	3,433,400	24,173	113	3,457,686	(3,121)	(77)	(75)	(3,273)	3,454,413
Total	50,287,698	710,092	520,590	51,518,380	(124,641)	(77,703)	(384,621)	(586,965)	50,931,415

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.1 Expected credit losses (continued)

10. *Financial Assets and ECLs by stage*

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortized cost:

	2018			<i>Total</i> <i>LL million</i>
	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	
Balance as of 1 January	102,887	-	340,875	443,762
Effect of IFRS 9 adoption (note 2)	(67,008)	77,626	36,282	46,900
Amended balance as of 1 January	35,879	77,626	377,157	490,662
Impairment loss for the year (note 13)	7,740	1,981	133,570	143,291
Recoveries (note 13)	(22,754)	(1,004)	(87,961)	(111,719)
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges")	34,343	(10,782)	18,587	42,148
Transfer to provisions for risks and charges (note 36)	(22,990)	-	-	(22,990)
Transfers between stages	(8,467)	270	8,197	-
Unrealized interest for the year	-	-	25,341	25,341
Transfer to off-financial position	-	-	(72,114)	(72,114)
Direct write-offs	-	-	(3,817)	(3,817)
Translation Difference	(60)	(3)	(10,279)	(10,342)
At 31 December 2018	23,691	68,088	388,681	480,460

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.2 Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2018 was LL 257,499 million (2017: LL 264,977 million), before taking into account collateral or other credit enhancements and LL 324,940 million (2017: LL 325,129 million) net of such protection.

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

49-1.2.1 Geographical Location Analysis

	2018		
	Domestic LL million	International LL million	Total LL million
Financial assets			
Cash and balances with central banks	30,094,503	3,040,904	33,135,407
Due from banks and financial institutions	292,130	2,074,639	2,366,769
Loans to banks and financial institutions	10,952	26,912	37,864
Derivative financial instruments	2,896	15,856	18,752
Financial assets at fair value through profit or loss	118,723	242,578	361,301
<i>Treasury bills and bonds</i>	52,752	-	52,752
<i>Corporate debt securities</i>	-	8,993	8,993
<i>Equity instruments</i>	18,750	171,843	190,593
<i>Funds</i>	47,221	61,742	108,963
Net loans and advances to customers at amortized cost	6,819,717	3,957,103	10,776,820
<i>Commercial loans</i>	3,376,454	2,865,107	6,241,561
<i>Consumer loans</i>	3,443,263	1,091,996	4,535,259
Net loans and advances to related parties at amortized cost	13,790	10,653	24,443
Debtors by acceptances	166,072	25,420	191,492
Financial assets at amortized cost	5,375,017	2,035,444	7,410,461
<i>Treasury bills and bonds</i>	3,462,204	1,214,978	4,677,182
<i>Certificates of deposit Central Bank of Lebanon</i>	1,875,763	-	1,875,763
<i>Corporate debt securities</i>	37,050	816,233	853,283
<i>Certificates of deposit private sector</i>	-	4,233	4,233
Financial assets at fair value through other comprehensive income	-	14,605	14,605
	42,893,800	11,444,114	54,337,914
	2017		
	Domestic LL million	International LL million	Total LL million
Financial assets			
Balances with central banks	23,036,165	1,594,326	24,630,491
Due from banks and financial institutions	551,684	3,011,569	3,563,253
Loans to banks and financial institutions	18,868	25,645	44,513
Derivative financial instruments	9,980	10,421	20,401
Financial assets at fair value through profit or loss	119,620	244,095	363,715
- <i>Treasury bills and bonds</i>	48,982	1	48,983
- <i>Corporate debt securities</i>	273	9,321	9,594
- <i>Funds</i>	52,106	55,270	107,376
- <i>Shares</i>	18,259	179,503	197,762
Net loans and advances to customers at amortized cost	7,557,830	3,778,145	11,335,975
- <i>Commercial loans</i>	3,830,691	2,684,553	6,515,244
- <i>Consumer loans</i>	3,727,139	1,093,592	4,820,731
Net loans and advances to related parties at amortized cost	17,476	10,669	28,145
Debtors by acceptances	136,226	14,565	150,791
Financial assets at amortized cost	5,081,697	2,774,678	7,856,375
<i>Treasury bills and bonds</i>	3,177,256	1,743,426	4,920,682
<i>Certificates of deposit central banks</i>	37,749	827,176	864,925
<i>Corporate debt securities</i>	1,862,668	204,076	2,066,744
<i>Certificates of deposit private sector</i>	4,024	-	4,024
Financial assets at fair value through other comprehensive income	-	4,224	4,224
	36,529,546	11,468,337	47,997,883

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.2.2 Credit Quality

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision-making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and arrange* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. (d) *Substandard* loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful* loans where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Lebanese Sovereign

The Group applies two different PDs for the sovereign exposures. Eurobonds are assigned a PD of a B- rated sovereign instrument whereas Central Bank placements in foreign currency are assigned 50% of the PD assigned for Eurobonds. The TTC PD considered by the Group for the sovereign portfolio is derived based on rating agencies' external studies.

A forward-looking adjustment is performed on both PDs via beta regression by considering the relevant macro-economic factors as published by International data sources. The resulting PiT and forward-looking PDs are then used in the ECL calculation under the base case. The Group then projects these factors under a lower and upper scenario.

Banks and Financial Institutions

The Group considers the credit spread above a given LIBOR rate or credit rating as a reflective rate to general the required expected credit losses

Debt securities

The Group assigns the lowest rating amongst the three rating agencies (Moody's, Standard & Poor's and Fitch) for each instrument. The Group also segregates the country of issuance of these debt securities between Emerging and Advanced Economies based on the International data sources studies. The Group then conducts a correlation analysis per rating grade for each of the considered group of Advanced Economies and Emerging Economies. The resulting PDs are PiT and forward looking. The Group then generated scenarios at the PD level.

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.2.2 Credit Quality (continued)

Commercial Loans

In accordance to the Group's policy, default is defined when the borrower is 90 days' past due, along with other qualitative indicators on a case-by-case basis. The default definition is reflected in the collection of the default rates on a yearly basis, to be used in the calibration stage of the PD calculation.

Consumer Loans

For the purpose of the loss rate calculation, the Group segregates its Consumer portfolio by product and displays the portfolio breakdown by bucket. The Group adopts this approach for its Consumer facilities that fall within Stage 1. The Group then analyzes monthly net flow rates whereby the loss rate for each delinquency bucket is computed by considering the flow into the designated loss bucket at which write-off is assumed to occur.

The table below shows the credit quality of the Group's financial assets and Contingent liabilities based on internal credit ratings and stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Total LL million
Financial assets					
Cash and balances with central banks	33,215,934	-	-	33,215,934	24,630,491
Due from banks and financial institutions	2,369,453	-	1,232	2,370,685	3,565,005
Loans to banks and financial institutions	38,147	-	-	38,147	44,513
Loans and advances to customers at amortized cost	9,978,084	773,819	505,377	11,257,280	11,779,737
<i>Commercial loans</i>	5,519,067	722,153	386,318	6,627,538	6,873,260
<i>Consumer loans</i>	4,459,017	51,666	119,059	4,629,742	4,906,477
Loans and advances to related parties at amortized cost	24,463	-	-	24,463	28,145
Debtors by acceptances	191,856	895	-	192,751	150,791
Financial assets at amortized cost	7,426,916	-	5,433	7,432,349	7,862,012
<i>Treasury bills and bonds</i>	4,682,385	-	5,433	4,687,818	4,926,319
<i>Certificates of deposit - central banks</i>	1,884,435	-	-	1,884,435	2,066,744
<i>Corporate debt securities</i>	855,777	-	-	855,777	864,925
<i>Certificates of deposit - Private sector</i>	4,319	-	-	4,319	4,024
	<u>53,244,853</u>	<u>774,714</u>	<u>512,042</u>	<u>54,531,609</u>	<u>48,060,694</u>
Contingent liabilities					
Financial guarantees	1,119,369	16,713	83	1,136,165	1,064,581
Documentary credits	240,280	418	-	240,698	243,727
Loan commitments	1,754,174	36,347	-	1,790,521	2,149,378
Total	<u>3,113,823</u>	<u>53,478</u>	<u>83</u>	<u>3,167,384</u>	<u>3,457,686</u>

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49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.3 Collateral and other credit enhancements

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2018							Associated ECL LL million
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Other LL million	Net credit exposure LL million	
Balances with central banks	32,851,607	-	2,342,765	-	-	-	30,508,842	(80,527)
Due from banks and financial institutions	2,365,769	-	4,241	-	-	-	2,362,528	(3,916)
Loans to banks and financial institutions	37,864	-	-	-	-	-	37,864	(283)
Derivative financial instruments	18,752	-	-	-	-	-	18,752	-
Financial assets at fair value through profit or loss	61,745	-	-	-	-	-	61,745	-
Net loans and advances to customers at amortized cost:	10,776,820	1,481,643	124,227	101,537	4,991,343	2,426,735	1,651,375	(480,460)
Commercial loans	6,241,561	1,424,484	124,227	101,537	2,117,197	1,039,933	1,414,183	(385,977)
Consumer loans	4,535,259	57,159	-	-	2,874,146	1,386,802	237,192	(94,483)
Net loans and advances to related parties at amortized cost	24,443	9,904	113	1,948	5,922	173	6,383	(20)
Debtors by acceptances	191,492	-	-	-	-	-	191,492	(1,259)
Financial assets at fair value through other comprehensive income	14,605	-	-	-	-	-	14,605	-
Financial assets at amortized cost	7,410,461	-	-	-	-	-	7,410,461	(21,888)
	<u>53,754,558</u>	<u>1,491,547</u>	<u>2,471,346</u>	<u>103,485</u>	<u>4,997,265</u>	<u>2,426,908</u>	<u>42,264,007</u>	<u>(588,353)</u>
Guarantees received								
Utilized collateral		1,491,547	2,471,346	103,485	4,997,265	2,426,908	11,490,551	
Surplus of collateral before undrawn credit lines		488,664	433,174	55,061	4,211,041	6,422,771	11,610,711	
		<u>1,980,211</u>	<u>2,904,520</u>	<u>158,546</u>	<u>9,208,306</u>	<u>8,849,679</u>	<u>23,101,262</u>	

	2017							Net credit exposure LL million
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Other LL million		
Balances with central banks	24,363,779	-	1,407,524	-	-	-	22,956,255	
Due from banks and financial institutions	3,563,253	-	4,000	-	-	-	3,559,253	
Loans to banks and financial institutions	44,513	-	-	-	-	-	44,513	
Derivative financial instruments	20,401	-	-	-	-	-	20,401	
Financial assets at fair value through profit or loss	58,577	-	-	-	-	-	58,577	
Net loans and advances to customers at amortized cost:	11,335,975	1,354,977	220,501	146,442	5,007,258	2,445,914	2,160,883	
Commercial loans	6,515,244	1,294,372	220,501	146,442	2,043,190	980,749	1,829,990	
Consumer loans	4,820,731	60,605	-	-	2,964,068	1,465,165	330,893	
Net loans and advances to related parties at amortized cost	28,145	8,232	123	-	7,998	63	11,729	
Debtors by acceptances	150,791	-	-	-	-	-	150,791	
Financial assets at amortized cost	7,856,375	-	-	-	-	-	7,856,375	
	<u>47,421,809</u>	<u>1,363,209</u>	<u>1,632,148</u>	<u>146,442</u>	<u>5,015,256</u>	<u>2,445,977</u>	<u>36,818,777</u>	
Guarantees received from banks, financial institutions and customers								
Utilized collateral		1,363,209	1,632,148	146,442	5,015,256	2,445,977	10,603,032	
Surplus of collateral before undrawn credit lines		741,883	162,996	42,126	4,276,233	6,125,269	11,348,507	
		<u>2,105,092</u>	<u>1,795,144</u>	<u>188,568</u>	<u>9,291,489</u>	<u>8,571,246</u>	<u>21,951,539</u>	

The schedules shown above exclude the undrawn commitments to lend of LL 1,790,521 million for the year ended 31 December 2018 (2017: LL 2,149,378 million).

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

49 RISK MANAGEMENT (continued)

49-1 Credit risk (continued)

49-1.3 Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit / guarantees*: The Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential)*: The Group holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.
- *Netting agreements*: the Group makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Group's exposure to credit risk, as shown in the tables on the following pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

In addition, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

49-2 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high quality liquid assets.

The Group maintains a portfolio of highly marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Bank must retain obligatory reserves with the central banks where the Group and its branches operate.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

49 RISK MANAGEMENT (continued)**49-2 LIQUIDITY RISK (continued)***Regulatory ratios and limits*

In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Furthermore, in accordance with the Central Bank of Lebanon circulars, the ratio of liquid assets to net tier 1 capital in Lebanese Lira should not be less than 40%. The liquid assets consist of cash and deposits with the Central Bank of Lebanon (excluding reserve requirements) and deposits due from other banks that mature within one year as well as Lebanese Treasury Bills that mature within one year.

Liquidity ratios	2018	2017
	%	%
Loans to deposits ratio		
Year-end	26.32%	28.30%
Average	27.28%	28.42%
Maximum	28.34%	28.85%
Minimum	26.32%	28.16%

The Group stresses the importance of customers' deposits as sources of funds to finance its lending activities. This is monitored by using the advances to deposit ratio, which compares loans and advances to customers as a percentage of clients' deposits.

Net liquid assets to customer liabilities ratios

	2018	2017
	%	%
Year-end	12.14%	13.74%
Average during the year	12.43%	12.47%
Highest	13.33%	13.74%
Lowest	11.81%	11.37%

Net liquid assets are liquid assets less all funds maturing in the next 30 days from wholesale market sources and from customers who are deemed to be professional. The Group defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities as at 31 December based on their contractual undiscounted cash flows. The contractual maturities were determined based on the period remaining to each maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were being given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

49 RISK MANAGEMENT (continued)

49-2 LIQUIDITY RISK (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	31 December 2018					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	3,497,338	808,266	2,231,279	14,015,771	36,967,853	57,520,507
Due from banks and financial institutions	2,279,341	98,952	110,806	33,465	172	2,522,736
Loans to banks and financial institutions	196	1,096	16,721	22,572	-	40,585
Derivative financial instruments	18,315	437	-	-	-	18,752
Financial assets at fair value through profit or loss	389	1,264	4,159	94,917	291,462	392,191
Net loans and advances to customers at amortized cost	2,975,575	1,733,425	4,125,351	4,235,334	1,333,631	14,403,316
Net loans and advances to related parties at amortized cost	16,637	255	793	2,079	7,901	27,665
Debtors by acceptances	65,981	125,198	313	-	-	191,492
Financial assets classified at amortized cost	237,530	261,090	702,553	4,980,869	3,803,344	9,985,386
Financial assets at fair value through other comprehensive income	-	-	-	11,825	2,781	14,606
Total undiscounted financial assets	9,091,302	3,029,983	7,191,975	23,396,832	42,407,144	85,117,236
Financial liabilities						
Due to central banks	30,774	56,279	151,782	1,849,752	6,112,167	8,200,754
Repurchase agreements	26,024	-	-	-	-	26,024
Due to banks and financial institutions	661,704	118,915	107,559	34,862	-	923,040
Derivative financial instruments	22,170	451	-	-	-	22,621
Customers' deposits at amortized cost	29,049,548	7,759,394	3,635,324	361,694	1,014	40,806,974
Deposits from related parties at amortized cost	158,363	6,749	473	-	-	165,585
Debt issued and other borrowed funds	2,813	5,625	25,314	571,141	-	604,893
Engagements by acceptances	66,399	126,004	348	-	-	192,751
Total undiscounted financial liabilities	30,017,795	8,073,417	3,920,800	2,817,449	6,113,181	50,942,642
Net undiscounted financial assets / (liabilities)	(20,926,493)	(5,043,434)	3,271,175	20,579,383	36,293,963	34,174,594

	31 December 2017					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	2,853,646	547,080	1,614,859	12,113,739	24,032,154	41,161,478
Due from banks and financial institutions	2,938,696	350,764	179,342	95,758	-	3,564,560
Loans to banks and financial institutions	10,853	309	16,204	19,418	-	46,784
Derivative financial instruments	17,093	3,307	1	-	-	20,401
Financial assets at fair value through profit or loss	607	1,145	3,452	81,205	308,992	395,401
Net loans and advances to customers at amortized cost	3,448,885	1,621,071	4,097,679	2,338,608	756,338	12,262,581
Net loans and advances to related parties at amortized cost	15,476	125	2,839	6,261	6,945	31,646
Debtors by acceptances	53,754	96,303	734	-	-	150,791
Financial assets at amortized cost	375,368	898,188	1,126,154	4,355,350	3,545,919	10,300,979
Financial assets at fair value through other comprehensive income	-	-	-	-	4,224	4,224
Total undiscounted financial assets	9,714,378	3,518,292	7,041,264	19,010,339	28,654,572	67,938,845
Financial liabilities						
Due to central banks	16,322	35,591	379,745	948,712	1,073,880	2,454,250
Repurchase agreements	7,355	-	-	-	-	7,355
Due to banks and financial institutions	461,358	63,492	55,417	-	-	580,267
Derivative financial instruments	26,699	7,686	2	-	-	34,387
Customers' deposits at amortized cost	8,623,205	26,471,577	4,565,442	670,888	29,467	40,360,579
Deposits from related parties at amortized cost	176,543	618	1,055	8,455	-	186,671
Engagements by acceptances	53,754	96,303	734	-	-	150,791
Total undiscounted financial liabilities	9,365,236	26,675,267	5,002,395	1,628,055	1,103,347	43,774,300
Net undiscounted financial assets / (liabilities)	349,142	(23,156,975)	2,038,869	17,382,284	27,551,225	24,164,545

49 RISK MANAGEMENT (continued)**49-2 LIQUIDITY RISK (continued)****Analysis of financial assets and liabilities by remaining contractual maturities (continued)**

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2018					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial guarantees	1,136,165	-	-	-	-	1,136,165
Documentary credits	-	240,698	-	-	-	240,698
Loan commitments	-	1,790,521	-	-	-	1,790,521
Other commitments	-	53,789	-	1,184,992	1,157,773	2,396,554
Total	1,136,165	2,085,008	-	1,184,992	1,157,773	5,563,938

	2017					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 Months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial guarantees	1,064,581	-	-	-	-	1,064,581
Documentary credits	-	243,727	-	-	-	243,727
Loan commitments	-	2,149,378	-	-	-	2,149,378
Other commitments	-	65,276	-	672,287	735,237	1,472,800
Total	1,064,581	2,458,381	-	672,287	735,237	4,930,486

49-3 MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

Bank Risk Management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management and to the Banking Control Commission on a monthly basis. The Group's Asset and Liability Management (ALM) policy assigns authority for its formulation, revision and administration to the Asset / Liability Committee (ALCO) of BLOM Bank SAL. Bank Risk Management is responsible for monitoring compliance with all limits set in the ALM Policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

A. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities that mature or are re-priced in a given period. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

The table below shows the sensitivity of interest income to reasonably possible parallel changes in interest rates, all other variables held constant.

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49 RISK MANAGEMENT (continued)

49-3 MARKET RISK (continued)

A. INTEREST RATE RISK (continued)

Interest rate sensitivity (continued)

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2018 and 2017. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

The sensitivity of equity was calculated for an increase in basis points whereby a similar decrease has an equal and offsetting effect on net interest income.

2018

Currency	Increase in basis points	Sensitivity of net interest income LL million
Lebanese Lira	+0.50%	(17,010)
United States Dollar	+0.50%	(22,183)
Euro	+0.25%	(2,558)

2017

Currency	Increase in basis points	Sensitivity of net interest income LL million
Lebanese Lira	+0.5%	(13,356)
United States Dollar	+0.5%	(5,332)
Euro	+0.25%	(2,291)

Interest sensitivity gap

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customer demand deposits.

	2018							Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 - 2) years LL million	(2 - 5) years LL million	More than 5 years LL million	Non-interest sensitive LL million	
ASSETS								
Cash and balances with central banks	1,985,872	1,940,997	421,242	379,136	1,748,283	23,697,291	2,962,586	33,135,407
Due from banks and financial institutions	1,000,146	98,191	99,442	33,490	-	-	1,135,500	2,366,769
Loans to banks and financial institutions	-	2,800	20,090	-	14,974	-	-	37,864
Derivative financial instruments	-	-	-	-	-	-	18,752	18,752
Financial assets at fair value through profit or loss	-	-	265	3,575	19,879	37,027	300,555	361,301
Net loans and advances to customers at amortized cost	4,511,800	1,982,411	2,498,260	784,194	633,090	153,744	213,321	10,775,820
Net loans and advances to related parties at amortized cost	16,575	3,664	-	63	138	4,003	-	24,443
Debtors by acceptances	-	-	-	-	-	-	191,492	191,492
Financial assets at amortized cost	193,324	142,076	335,156	518,088	3,057,064	3,050,964	93,789	7,410,451
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	14,605	14,605
Total assets	7,707,717	4,170,139	3,394,455	1,718,546	5,473,428	26,943,029	4,930,600	54,337,914
LIABILITIES								
Due to central banks	27,319	19,732	37,727	43,594	1,297,060	5,648,613	42,177	7,116,222
Repurchase agreements	-	-	-	-	-	-	25,826	25,826
Due to banks and financial institutions	337,268	124,218	108,344	-	-	-	296,231	866,061
Derivative financial instruments	-	-	-	-	-	-	22,621	22,621
Customers' deposits at amortized cost	26,781,349	3,615,248	4,781,695	140,409	50,057	928	5,043,718	40,413,404
Deposits from related parties at amortized cost	111,897	6,459	395	-	-	-	45,467	164,218
Debt issued and other borrowed funds	-	-	-	-	450,991	-	5,297	456,288
Engagements by acceptances	-	-	-	-	-	-	192,751	192,751
Total liabilities	27,257,833	3,765,657	4,928,161	184,003	1,798,108	5,649,541	5,674,088	49,257,391
Total interest rate sensitivity gap	(19,550,116)	404,482	(1,533,706)	1,534,543	3,675,320	21,293,488	(743,489)	5,080,523

49 RISK MANAGEMENT (continued)

49-3 MARKET RISK (continued)

A. INTEREST RATE RISK (continued)

Interest sensitivity gap (continued)

	2017							Total L.L. million
	Up to 1 month L.L. million	1 to 3 months L.L. million	3 months to 1 year L.L. million	(1 - 2) years L.L. million	(2 - 5) years L.L. million	More than 5 years L.L. million	Non interest sensitive L.L. million	
ASSETS								
Cash and balances with central banks	1,462,914	1,699,074	324,545	834,746	3,515,356	14,538,693	2,255,163	24,630,491
Due from banks and financial institutions	1,254,191	433,062	207,747	61,911	33,484	-	1,532,858	3,561,253
Loans to banks and financial institutions	10,522	4,600	29,060	-	-	-	331	44,513
Derivative financial instruments	-	-	-	-	-	-	20,401	20,401
Financial assets at fair value through profit or loss	256	-	358	246	11,698	45,242	305,915	363,715
Net loans and advances to customers at amortized cost	4,356,118	2,250,831	2,756,953	877,596	767,030	83,294	244,153	11,335,975
Net loans and advances to related parties at amortized cost	16,756	3,434	55	10	3,863	4,009	18	28,145
Debtors by acceptances	-	-	-	-	-	-	150,791	150,791
Financial assets at amortized cost	331,172	752,606	834,983	333,127	2,723,434	2,772,434	108,619	7,856,175
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	4,224	4,224
TOTAL ASSETS	7,431,929	5,163,607	4,153,701	2,107,636	7,054,865	17,443,672	4,642,473	47,997,883
LIABILITIES								
Due to central banks	946	27,349	347,977	40,463	787,880	1,002,525	47,805	2,254,945
Repurchase agreements	-	-	-	-	-	-	7,263	7,263
Due to banks and financial institutions	180,039	64,411	56,179	-	-	-	278,056	578,685
Derivative financial instruments	-	-	-	-	-	-	34,387	34,387
Customers' deposits at amortized cost	25,228,927	4,293,543	4,193,804	48,976	35,258	132	6,176,379	39,977,019
Deposits from related parties at amortized cost	98,752	290	8,227	274	-	-	78,028	185,571
Engagements by acceptances	-	-	-	-	-	-	150,791	150,791
TOTAL LIABILITIES	25,508,664	4,385,593	4,606,187	89,713	821,138	1,002,657	6,772,709	43,188,661
Total interest rate sensitivity gap	(18,076,735)	778,014	(452,486)	2,017,923	6,231,727	16,441,015	(2,130,236)	4,809,222

B. CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

The Central Bank of Lebanon allows the Bank to maintain a net open FX trading position, debit or credit, that does not exceed at any time 1% of net Tier 1 equity on condition that the global open FX position does not exceed 40% of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio. In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored to ensure they are maintained within established limits.

BLOM Bank SAL

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49 RISK MANAGEMENT (continued)

49-3 MARKET RISK (continued)

B. CURRENCY RISK (continued)

The following tables present the breakdown of assets and liabilities by currency:

The following statement of financial positions as of 31 December are detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2018					Total LL million
	LL million	US Dollars in LL million	Euro in LL million	Other foreign currencies LL million	Total foreign currencies LL million	
<i>Foreign currencies in Lebanese Lira</i>						
ASSETS						
Cash and balances with central banks	13,560,757	14,832,215	2,922,948	1,819,487	19,574,650	33,135,407
Due from banks and financial institutions	80,537	983,492	472,733	830,007	2,286,232	2,366,769
Loans to banks and financial institutions	10,952	26,912	-	-	26,912	37,864
Derivative financial instruments	2,896	264	1,753	13,839	15,856	18,752
Financial assets at fair value through profit or loss	16,603	281,029	316	63,353	344,698	361,301
Net loans and advances to customers at amortized cost	2,427,641	5,530,852	359,292	2,459,035	8,349,179	10,776,820
Net loans and advances to related parties at amortized cost	4,040	11,304	2,585	6,514	20,403	24,443
Debtors by acceptances	-	156,119	23,352	12,021	191,492	191,492
Financial assets at amortized cost	3,242,025	3,093,837	24,694	1,049,905	4,168,436	7,410,461
Financial assets at fair value through other comprehensive income	-	649	26	13,930	14,605	14,605
Property and equipment	558,745	162	36,991	207,927	245,080	803,825
Intangible assets	1,539	19	88	3,345	3,452	4,991
Assets obtained in settlement of debt	(501)	39,918	-	18,859	58,777	58,276
Other assets	49,799	38,643	9,915	81,191	129,749	179,548
Goodwill	(88,655)	88,655	-	1,984	90,639	1,984
TOTAL ASSETS	19,866,378	25,084,070	3,854,693	6,581,397	35,520,160	55,386,538
LIABILITIES						
Due to central banks	7,047,708	47,066	-	21,448	68,514	7,116,222
Repurchase agreements	-	-	-	25,826	25,826	25,826
Due to banks and financial institutions	148,142	477,243	87,074	153,602	717,919	866,061
Derivative financial instruments	4,973	14,137	629	2,882	17,648	22,621
Customers' deposits at amortized cost	8,728,686	24,315,061	2,594,169	4,775,488	31,684,718	40,413,404
Deposits from related parties at amortized cost	49,121	70,450	16,113	28,534	115,997	164,218
Debt issued and other borrowed funds	-	456,288	-	-	456,288	456,288
Engagements by acceptances	-	157,389	23,344	12,018	192,751	192,751
Other liabilities	407,702	302,245	32,574	107,274	442,093	849,795
Provisions for risks and charges	281,444	47,894	-	22,723	70,617	352,061
Total liabilities	16,667,776	25,887,773	2,753,903	5,149,795	33,791,471	50,459,247
NET EXPOSURE	3,198,602	(803,703)	1,100,790	1,431,602	1,728,689	4,927,291
2017						
<i>Foreign currencies in Lebanese Lira</i>						
	LL million	US Dollars in LL million	Euro in LL million	Other foreign currencies LL million	Total foreign currencies LL million	Total LL million
ASSETS						
Cash and balances with central banks	9,413,645	11,526,799	2,255,940	1,434,107	15,216,846	24,630,491
Due from banks and financial institutions	78,143	1,732,506	856,414	896,190	3,485,110	3,563,253
Loans to banks and financial institutions	18,868	25,645	-	-	25,645	44,513
Derivative financial instruments	9,980	539	3,472	6,410	10,421	20,401
Financial assets at fair value through profit or loss	22,576	285,518	387	55,234	341,139	363,715
Net loans and advances to customers at amortized cost	2,577,655	6,005,138	383,968	2,369,214	8,758,320	11,335,975
Net loans and advances to related parties at amortized cost	4,344	13,246	4,554	6,001	23,801	28,145
Debtors by acceptances	-	125,712	18,604	6,475	150,791	150,791
Financial assets at amortized cost	2,930,930	3,219,174	28,513	1,677,758	4,925,445	7,856,375
Financial assets at fair value through other comprehensive income	-	646	27	3,551	4,224	4,224
Property and equipment	551,285	148	39,766	206,676	246,590	797,875
Intangible assets	619	366	98	1,090	1,554	2,173
Assets obtained in settlement of debt	(501)	39,738	-	21,443	61,181	60,680
Other assets	85,367	40,344	7,850	65,936	114,130	199,497
Goodwill	(88,655)	88,655	-	1,996	90,631	1,996
TOTAL ASSETS	15,604,236	23,104,174	3,599,593	6,752,081	33,455,848	49,060,104
LIABILITIES						
Due to central banks	2,196,787	35,134	-	23,024	58,158	2,254,945
Repurchase agreements	-	-	-	7,263	7,263	7,263
Due to banks and financial institutions	5,163	379,530	94,981	99,911	573,522	578,685
Derivative financial instruments	19,156	14,564	86	581	15,231	34,387
Customers' deposits at amortized cost	10,094,160	22,621,166	2,650,726	4,610,967	29,882,859	39,977,019
Deposits from related parties at amortized cost	51,151	53,402	33,285	47,733	134,420	185,571
Engagements by acceptances	-	125,712	18,604	6,475	150,791	150,791
Other liabilities	343,121	319,640	19,210	125,427	474,277	817,398
Provisions for risks and charges	458,914	44,068	350	20,092	64,510	521,424
Total liabilities	13,168,452	23,603,216	2,817,242	4,940,573	31,361,031	44,529,483
NET EXPOSURE	2,435,804	(499,042)	782,351	1,811,508	2,094,817	4,530,621

49 RISK MANAGEMENT (continued)**49-3 MARKET RISK (continued)****B. CURRENCY RISK (continued)****The Group's Exposure to Currency Risk**

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros.

The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency	<i>Change in currency rate % 2018</i>	<i>Effect on profit before tax 2018 LL million</i>	<i>Change in currency rate % 2017</i>	<i>Effect on profit before tax 2017 LL million</i>
USD	± 1%	±4,608	± 1%	±8,723
EUR	± 3%	±14,751	± 3%	±3,255

C. EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of a change in stock prices. Equity price risk exposure arises from equity securities classified at fair value through profit or loss. A 5 percent increase in the value of the Group's equities at 31 December 2018 would have increased net income by LL 9,530 million (2017: LL 9,888 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

D. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as housing loans when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

49-4 OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent Operational Risk Management department that operates in coordination with other support functions. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through periodic reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: segregation of duties, four-eye principle, and independency of employees performing controls, reconciliations, and awareness. Controls are also embedded within systems and formalized in policies and procedures.

49 RISK MANAGEMENT (continued)**49-4 OPERATIONAL RISK (continued)**

Incidents are captured and analyzed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new operations, products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Board Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

50 CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk. To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining a ratio of total regulatory capital to risk-weighted assets at or above 15% to be achieved in 2018. The limit of the Common Equity tier 1 Ratio is 9%, the Tier 1 ratio to 12% and the Total Capital Ratio to 14.5% by the end of 2017.

	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>
Risk weighted assets:		
Credit risk	19,753,164	19,059,611
Market risk	994,245	1,102,302
Operational risk	2,640,523	2,475,921
Total risk weighted assets	23,387,932	22,637,834

The capital base as per Basel III requirements as of 31 December is as follows:

	<i>Excluding net income for the year</i>		<i>Including net income for the year less proposed dividends</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Tier 1 Capital	4,067,080	3,646,580	4,474,202	4,013,425
Tier 2 Capital	220,549	94,071	220,549	94,071
Total Capital	4,287,629	3,740,651	4,694,751	4,107,496

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from previous years, however, they are under constant scrutiny of the Board.

50 CAPITAL MANAGEMENT (continued)

The capital adequacy ratio as of 31 December is as follows:

	<i>Excluding net income for the year</i>		<i>Including net income for the year less proposed dividends</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Capital adequacy – Tier 1	17.39%	16.11%	19.13%	17.73%
Capital adequacy – Total Capital	18.33%	16.52%	20.07%	18.14%

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, its business model and risk profile. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders or issue capital securities.